S. HRG. 101-259, PT. VII

PREPARATION FOR THE 1990 FARM BILL

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST AND SECOND SESSIONS

ON

REFORM OF PUBLIC LAW 480—FOOD FOR PEACE; IMPACT OF AGRICULTURE ON GROUND WATER: OPPORTUNITY FOR ACTION; ADMINISTRATION VIEWS; TRADE; AND TESTIMONY FOR THE 1990 FARM BILL

NOVEMBER 7, 1989; JANUARY 25, FEBRUARY 7, FEBRUARY 21, AND MARCH 21, 1990

PART VII

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PREPARATION FOR THE 1990 FARM BILL

Reform of Public Law 480—Food for Peace

TUESDAY, NOVEMBER 7, 1989

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 2:39 p.m., in room SR-332, Russell Senate Office Building, Hon. Patrick J. Leahy (chairman of the committee) presiding.

Present or submitting a statement: Senators Leahy, Conrad, Daschle, Harkin, Gorton, and Bond.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. Good afternoon. The start of the caucus ran a little bit late, and I know that we have to end exactly at 4:30 because of the other Senate schedule. So, we are hoping that we can get most, if not all, witnesses through before then.

Thirty-six years ago, a good friend of mine, a member of this committee, Senator Hubert Humphrey, took to the floor of the Senate and spoke of his dream—Food for Peace.

When I think of that, that is remarkable because I was 13 years old at the time Senator Humphrey first spoke of Food for Peace, which means that for much of my lifetime Food for Peace has actually existed.

The words that Senator Humphrey said there that day still ring true for us here today: "Democracy and freedom has no greater ally than the abundance of food."

Senator Humphrey recognized that we need more than billions for defense.

We must also use our wealth and our agricultural ability to stand with those across the globe who face hunger and starvation.

Today, as we prepare for the 1990 farm bill, we will hear testimony on Public Law 480, the Food for Peace program.

While this international food aid program reveals the unique generosity of the American people, we must take a hard look at it: How is it working today—in a world far more competitive and far more debt-ridden than the early 1950's, when Hubert Humphrey spoke on the floor of the Senate.

As we examine Public Law 480, there are two central concerns to keep in mind—world hunger and poverty.

When I was at lunch today, I was talking with former President Carter about the late singer, Harry Chapin, who had talked us into having the President establish the Presidential Commission on World Hunger. Those of us who served on it, myself included, made a commitment to fight world hunger.

But I have come to realize that lack of food is not the only root cause of hunger. It is a lack of income which generates much of the tragedy facing the world's families.

Now, our ability in the United States to produce food is critical for our national security. We have sufficient supplies of food at home to help those abroad.

Senator Lugar and myself are committed to address the challenge of world hunger.

Over the past year, our committee worked with the administration, the voluntary organizations, and the agricultural and foreign policy communities to determine the effectiveness of our policy on food aid. We now have the foundation to make important policy and management reforms.

Let me give you some ideas of what we have today.

This year, we must better focus on the export and food aid sections of the farm bill. We need an aggressive and intelligent trade policy and an effective Public Law 480 program.

Public Law 480's goals have to be clearly and honestly identified.

Lines of authority need clarification. When our goal is market development, the program should be handled by USDA. When the goal is economic development, the Agency for International Development and the PVO's should take the lead.

Our policies must respond to the economies of the very poor, debt-burdened countries as well as the advanced, developing countries. We need to look at local currency accounts and realistic auditing requirements. We need to acknowledge the problems of piling debt on top of debt.

We need to give more attention to the role of the Private Voluntary Organizations, including indigenous PVO's. They are on the front line. What do they need to maintain their life-giving mission?

Finally, we need to make this program a dependable and useful tool to achieve food security in the world.

What I am saying is that we are wise to move quickly on this part of the farm bill, Public Law 480. Public Law 480 has served us and has served many parts of the world very well over the years.

As I said, it was first proposed by Senator Humphrey on the floor of the Senate when I was 13 years old. During those years, though, there have been changes in the world. There have been changes here in the United States and there have been changes in the way Public Law 480 is run. It is time to recognize some of those changes and to recognize that in this farm bill we may well need some course corrections in Public Law 480. We may well need some fundamental changes, and indeed there will be some.

These are my early thoughts. We are open to your ideas. Both Senator Lugar and I want to work with the administration and all of you. We want to move ahead quickly with this portion of the farm bill. We therefore need the administration's legislative proposals by mid-December.

The world's hungry present us with an immense challenge.

With the support of all in this room we can build a new coalition to give new meaning to the goal of food security and to improve the lot of the world's families.

I would like to call on Ann Veneman, the Deputy Under Secretary of International Affairs and Commodity Programs of the Department of Agriculture; and Philip Christenson, Assistant Administrator of the Bureau for Food for Peace and Voluntary Assistance, U.S. Agency for International Development (AID).

If the two of you could come up here, and your prepared statements, of course, will be placed in the record.

Ms. Veneman, if you will go ahead and begin.

STATEMENT OF ANN M. VENEMAN, DEPUTY UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC; ACCOMPANIED BY CHRISTOPHER GOLDTHWAIT, ASSISTANT ADMINISTRATOR FOR EXPORT CREDITS AND ASSISTANT GENERAL SALES MANAGER; AND MARY CHAMBLISS, DIRECTOR OF PROGRAM ANALYSIS, DIVISION OF EXPORT CREDITS

Ms. VENEMAN. Thank you, Mr. Chairman.

INTRODUCTION

It is a pleasure to be here today and to have the opportunity provided by this committee to discuss the operations and effectiveness of the Agricultural Trade Development and Assistance Act of 1954, better known as Public Law 480.

As you have indicated, this act, also known as the Food for Peace program, is the primary means used by the United States to provide food assistance to developing countries. The United States is the world's largest food aid donor, providing over half of all types of food aid.

If it is acceptable to you, Mr. Chairman, I would like to briefly summarize my statement, the full text of which I have submitted for the record.

The CHAIRMAN. Thank you. I understand the administration does have a working group putting together proposals for Public Law 480 reforms. Would you please tell me what the recommendations are that they are going to make?

Ms. VENEMAN. I will do my best to discuss that working group. Whether or not I can actually talk about the proposals at this time, I am not sure.

The CHAIRMAN. When will the proposals be prepared?

Ms. VENEMAN. We are hoping to get the proposals prepared by sometime in December, although, given the nature of the interagency process, we can't be absolutely certain of the timing.

The CHAIRMAN. Well, that is really not good enough, because we were going to try to mark up Public Law 480 this year. We may have to go ahead and just markup without them. And I would hate to be in that situation.

Why don't you, when you go back, ask them if they might want to move that along a little bit. Otherwise, they may well want to go on to something else, because it would be too late to be of any help or even be of any consideration here in this committee. And I

would like very much to have it. I think it would be helpful to us. But I would hate to have them then continue to work with the idea of giving us something but it would be too late.

Ms. VENEMAN. Well, Mr. Chairman, I think that the working group is working, and the interagency group is coming up with a number of proposals, recommendations, reviews. In addition, we have been working with your committee staff, trying to have as much dialog as possible. Particularly, Janet Breslin has been extremely helpful in this process, and we do intend to work every step of the way with you and your staff to try to fashion the type of legislation that will be acceptable.

The CHAIRMAN. And I appreciate this. But I am not saying anything I haven't said to the Secretary. I have talked with him about being concerned on a whole number of areas that are taking a long time. I know everybody wants to be thorough, but sooner or later we have to bolden these things, and I have delayed, to be cooperative with the administration, to give the administration a chance to get their views up here first before we even move on anything.

That is why Dr. Breslin and others have worked so hard with you. But—and please don't take this as a personal thing—I just want to make sure you pass the message back. I want to be cooperative, but we also have a schedule here and we have to get going. And there are a lot of things, not just in this area but others, that we can't get the final signoff on. Sooner or later we have to make decisions up here, and sooner or later the administration has to make some decisions too.

Ms. VENEMAN. I understand that, Mr. Chairman.

INTRODUCE THE MEMBERS AT THE TABLE FROM THE USDA WHO ARE WITH ME

I would also like to, before I begin, introduce the members at the table from the USDA who are with me. I am accompanied by Chris Goldthwait, who is our Assistant General Sales Manager and Assistant Administrator for Export Credits, and as well, Mary Chambliss, who I call our real Public Law 480 expert. She is our Division Director for Program Analysis, Division of Export Credits. They are here to assist in answering any questions you might have.

MULTIPLE OBJECTIVES

The multiple objectives of Public Law 480—humanitarian feeding, market development, economic development, and foreign policy—create an inherently complex program. These objectives are often, but not always, mutually supportive.

THE PRIMARY CONCERN OF USDA IS IN THE MARKET DEVELOPMENT AREA AS WELL AS COMMODITY USE

The program complexity is compounded by the fact that five Federal agencies have an interest in Public Law 480 management. The primary concern of USDA is in the market development area as well as commodity use.

PROGRAM EFFECTIVENESS

Over the years, Public Law 480 programs have been effective in meeting their goals. U.S. title II food donations have often made a life-or-death difference for victims of natural disasters, civil strife, or poor local production. Since 1954, the United States has donated more than $10 billion in food to over 110 countries with many millions of people helped. One only has to think of Bangladesh and Africa in the 1980's, the Sahelian countries in the 1970's, and India in the 1960's to realize how many millions of people have been helped over the years. In addition, title I long-term concessional sales, totaling over $30 billion of agricultural commodities, have been provided to over 80 countries. These commodities, which are sold in the recipient countries, generate funds that are used to promote long-term economic development which, in turn, supports long-term U.S. agricultural market development.

A developing country's overall economic growth and expanding U.S. agricultural exports have often gone hand-in-hand, as evidenced by U.S. export sales to Korea, Indonesia, Sri Lanka, and Cote d'Ivoire.

PUBLIC LAW 480 PLANNING AND BUDGETING

Public Law 480 planning, budgeting, and management are complex, as I outlined in the statement that I have submitted for the record, and we would be happy to provide you with any additional information on operational aspects.

PUBLIC LAW 480 REAUTHORIZATION

As you indicated, Mr. Chairman, as we look to the future, several general areas need to be closely examined during this reauthorization process. I will point out that there does seem to be broad agreement that any reform will need to be in the context of the following parameters:

First, U.S. commodities are a necessary component of food assistance, even with success in reducing domestic surpluses. For example, no large-scale purchase of host or third-country commodities with Public Law 480 dollars.

Second, the fundamental objectives included in the current law are valid and will remain; that is, market development, economic development, humanitarian assistance, and foreign policy.

Third, a significant amount of grant assistance will continue to be channeled through private and voluntary organizations (PVO's) and cooperatives, as well as the World Food Program.

And fourth, overall budget constraints will continue to affect this as well as other U.S. Government programs.

Accepting the above as given, we are examining the following possibilities for strengthening Public Law 480, including the market development potential of Public Law 480:

First, clarification or possibly, separation of the legislative objectives to increase the effectiveness of the program. Currently, each Public Law 480 title I agreement focuses on many components. The question is whether by trying to do so many things with one program we water down the effectiveness of meeting any of these objectives?

Second, sharper focus on countries with significant agricultural import potential to achieve the market development goal. Similarly, the possibility of a sharper focus for other objectives might also be useful.

Third, looking at a broader range of eligible agricultural commodities. This may mean introducing some higher value, processed commodities not previously considered. This may require more flexibility than current legislation provides, given criteria limiting commodities to those determined by USDA to be in "excess" supply and available.

Fourth, fewer restrictions on transactions for the programs focused on market development. For example, we might consider relaxing or eliminating self-help and local currency programming requirements for country programs focused on primarily promoting new or expanded markets.

And fifth, more flexibility in loan or grant terms. We may want to increase or decrease concessionality to tailor the terms to the country, commodity, and situation. We also may want to consider selling commodities directly to the private sector in recipient countries for local currency. Of course, with many of us remembering the unfortunate experiences of excess local currency generations in the past, any movement in this area would have to be carefully considered.

CONCLUSION

I should repeat and I should emphasize that these are just topics under review. Some may have merit while others may best be forgotten. They are offered merely to encourage further discussion and review in examining the program. And as I indicated, USDA, in conjunction with the interagency process, is in the process of conducting a review of these and other possibilities.

[The prepared statement of Ms. Veneman and reply to Senator Lugar's questions on the reform of Public Law 480 follow:]

STATEMENT BY
ANN M. VENEMAN
DEPUTY UNDER SECRETARY FOR
INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
SENATE AGRICULTURE COMMITTEE
NOVEMBER 7, 1989

Mr. Chairman, we appreciate the opportunity provided by the Agriculture and Foreign Affairs Committees to discuss the operations and effectiveness of the Agricultural Trade Development and Assistance Act of 1954, better known as PL 480. This program, also known as Food for Peace, is the primary means used by the United States to provide food assistance to developing countries. The United States is the world's largest food aid donor, providing over half of all types of food aid.

PL 480 legislation, enacted 35 years ago, envisioned a program to help meet urgent humanitarian food needs, as well as to support agricultural marketing goals, through the effective use of surplus U.S. agricultural commodities. The foreign policy implications of this food assistance program have also been recognized since 1954. The multiple objectives of PL 480 - humanitarian feeding, market development, economic development and foreign policy - create an inherently complex program. These objectives are often, but not always, mutually supportive. USDA is, of course, particularly concerned with the objective of market development for U.S. agricultural commodities.

Just as the PL 480 program has multiple objectives, five Federal agencies have an interest in the management of this program. The USDA has a primary interest in the market development and commodity use aspects and is assigned the operational responsibilities for Title I. The Agency for International Development (AID) has primary responsibility for the Title II donation program and an interest in the economic development and humanitarian aspects of the entire program. The State Department has an interest in the foreign policy implications of all food aid. The Department of the Treasury has a major interest in Title I financial terms and focuses on the overall debt situation of participating countries. The Office of Management and Budget (OMB) has a key interest in the full range of budgetary and policy issues.

Decision-making within this diverse set of interests and federal agencies, while complex and time-consuming at times, does occur - maybe not as quickly as some would like. Food aid commodities do reach consumers in developing countries in all regions of the world. Many books, publications, and articles have been written on the effectiveness, the complexity, and the somewhat cumbersome nature of PL 480. It has its critics and its supporters. We at USDA are generally among the supporters and consider the program to have been an effective one over the years. We note with appreciation that the program has also over the years enjoyed bipartisan support from Congress.

Program Effectiveness

U.S. Title II food donations have often made a life-or-death difference for victims of natural disasters, civil strife, or poor local production. This we all believe is one of the major successes of the program. Since 1954, the United States has donated more than $10 billion in food to over 110 countries with many millions of people helped. One only has to think of Bangladesh and Africa in the 80s, the Sahelian countries in the 70s, and India in the 60s to realize this. In addition, Title I long-term concessional sales totaling nearly $30 billion of agricultural commodities have been provided to over 80 countries. These commodities, sold in the recipient countries, generate funds that are used to promote economic growth and development which support long-term U.S. agricultural market development. These local currencies can be used to carry out short-term market development activities.

A developing country's overall economic growth and expanding U.S. agricultural exports have often gone hand-in-hand. Korea is an example where market development programs have successfully complemented concessional credit sales to help create a billion dollar market for U.S. farmers. Indonesia, a traditional rice importing country, has become an important market for wheat, especially as urban areas have grown. PL 480 Title I sales have helped US wheat exports to that market. Sri Lanka has followed a similar pattern, after completion of the world's largest flour mill. The Cote d'Ivoire signed a Title I agreement in 1989 that is expected to help rejuvenate commercial rice trade with that country. These are a few examples of the effectiveness of PL 480 to achieve USDA's primary goal of expanding U.S. agricultural exports.

Though often overlooked, one of the major market development impacts of Title I sales to developing countries is the experience these importers gain in using U.S. agricultural commodities, and in working with U.S. exporters and bankers. They learn with whom to trade and how to carry out commercial trade transactions.

I would now like to turn to some of the more operational aspects of PL 480.

PL 480 Planning and Budgeting

Planning and budgeting for PL 480 requires substantial interagency communication and cooperation. Policy guidance in the Executive Branch is accomplished through the Food Aid Subcommittee of the Development Coordination Committee (DCC). The DCC is composed of Cabinet level participants, and the Food Aid Subcommittee is composed of representatives of the Cabinet members and reflects the interests of the agencies mentioned above. At the day to day working level, staff level Working Groups carry out the interagency coordination activities, with separate working groups addressing Title I and Title II issues.

In preparing the annual budget request for Public Law 480, the USDA submits a budget request to OMB as does the State/AID complex. There is an effort to achieve general interagency agreement on the level of the requests for both Title I and Title II. The final budget level is established by the President in the context of the President's complete budget submission to Congress in January of each year. This budget request establishes proposed funding levels for Title I and Title II, as well as tentative country and commodity plans.

Section 401(a) of PL 480 provides the criteria which the Secretary of Agriculture uses in determining the agricultural commodities and respective quantities available for use in PL 480. In general, the Secretary must consider U.S. productive capacity, domestic requirements, farm and consumer price levels, anticipated commercial exports for dollars, and adequate carryover.

When Congress enacted section 401(a) it noted the necessarily close relationship between commodities supported by food aid resources and the domestic price support programs which must be managed by the Secretary of Agriculture.

Just as close interagency cooperation is a must for planning and budgeting for PL 480, the implementation of commodity purchases and shipments requires equally exacting coordination.

PL 480 - Operations

The USDA has been assigned lead agency responsibility for the operation of Title I. AID has the lead operational responsibility for Title II; this is carried out with the assistance of the USDA's Agricultural Stabilization and Conservation Service (ASCS). The operational complexities of Title I and Title II are somewhat different, and I will briefly outline each.

Title I

- An agreement with a foreign country must first be negotiated and signed; this is largely the responsibility of the U.S. AID overseas staff, with guidance from the Title I working group in Washington. Such negotiations must cover not only the commodity mix and the financial terms, they must also address the self-help and economic development measures, export limitations, and usual marketing requirements.

- To implement this agreement, a purchase authorization must be issued which also alerts U.S. exporters of a country's interest in purchasing. Title I commodities are purchased by the importing country from the U.S. commercial market. USDA Foreign Agricultural Service (FAS) staff work with the importer to assure the correct commodity specifications and to assure compliance with governing regulations.

- The importing country requests, through open invitations, bids for the commodities they wish to purchase. Again, FAS staff reviev the bids and monitor the bid process to assure compliance with regulations.

- The importing country revievs and avards bids for the commodities.

- Ocean transportation is arranged by the importing country, again by open invitations for bids in the case of U.S. flag vessels; tendering is carried out to assure that Cargo Preference Provisions are complied with. FAS staff also monitor overall compliance with the cargo preference provisions requiring that 75 percent of the cargo on a global basis be shipped on U.S. vessels. In practice, this is one of the more difficult and complex aspects of managing the PL 480 program.

Title II

- There are three different program sponsors under the authority of Title II. Programs with private voluntary agencies represent the largest portions of Title II activities; in addition title II commodities are donated through the World Food Program and other international organizations, as well as through bilateral government-to-government programs.

As noted above, ASCS plays a major operational role in Title II. The ASCS Kansas City Commodity Office (KCCO), under policy guidance of the ASCS headquarters in Washington, is responsible for the procurement of commodities from US commercial stocks or for supplying commodities from CCC stocks. Title II commodities are generally ordered on a monthly basis.

- To maximize the quantity of food that can be supplied, KCCO purchases on the basis of "lowest landed cost". Lowest landed cost means the total cost of the commodity plus transportation to the foreign port of discharge. In addition, KCCO allocates commodities by port and works with AID to assure compliance with cargo preference requirements, including through the end of 1989 compliance with the Great Lakes set aside.

- AID is primarily responsible for managing the Title II program consistent with the many legislative requirements establishing minimum quantities; percentages for processed and bagged commodities; as well as monetization requirements. AID also has the overseas responsibility for assuring that Title II activities comply with the program regulations.

Conclusion

I have taken this opportunity to focus more on the operational side of PL 480 than is usually the case in appearances before Congressional committees. However, as we approach the reauthorization of PL 480 next year, I thought it appropriate to do so in order to be sure interested members of Congress could look at all aspects of the program. Should any member of Congress wish more information on any of the operational aspects, we would be glad to provide that material.

P.L. 480 Reauthorization

As chair of the Food Aid Subcommittee of the DCC, USDA is coordinating a review of the existing legislation with an eye toward developing an Administration agenda for reform. We are currently in the middle of this process and have yet to make specific recommendations. However, in the spirit of the bipartisan Executive/Legislative cooperation that will be necessary to realize reforms, I would like to share with you some of the thoughts that have emerged to date.

There seems to be broad agreement that any reform will need to be in the context of the following parameters:

1. U.S. commodities are a necessary component of food assistance, even with success in reducing domestic surpluses (i.e., no large scale purchase of host or third country commodities with P.L. 480 dollars).

2. The fundamental objectives included in the current law are valid and will remain, i.e., market development, economic development, humanitarian assistance, and foreign policy.

3. A significant amount of grant assistance will continue to be channeled through private and voluntary organizations (PVO's) and cooperatives, as well as the World Food Program.

4. Overall budget constraints will continue to affect all U.S. Government programs.

Accepting the above as given, we are examining the following possibilities for strengthening P.L. 480, including the market development potential of P.L. 480:

1. Clarification or possibly, separation of the legislative objectives to increase the effectiveness of the program. Currently each P.L. 480 Title I agreement focuses on many components. The question is whether by trying to do so many things with one program we water down the effectiveness of meeting any of the objectives?

2. Sharper focus on countries with significant agricultural import potential to achieve the market development goal. Similarly sharpen focus for the other objectives may also be useful.

3. Broader range of eligible agricultural commodities (i.e., may mean introducing some higher value, processed commodities not previously considered). This may require more flexibility than current legislation provides, given criteria limiting commodities to those determined by USDA to be in "excess" supply and available.

4. Fewer restrictions on transactions for the programs focused on market development. For example, we could consider relaxing or eliminating self-help and local currency programming requirements for country programs focused on primarily promoting new or expanded markets.

5. More flexibility in loan or grant terms. We may want to increase or decrease concessionality to tailor the terms to the country, commodity, and situation. We also may want to consider selling commodities directly to the private sector in recipient countries for local currency. Of course, with many of us remembering the unfortunate experiences of excess local currency generations in the past, any movement in this area would have to be carefully considered. However, as a variant to the current section 108 program, sales for local currency may be helpful in promoting private sector connections with U.S. exporters in countries where foreign exchange is centrally controlled.

I should repeat and emphasize that these are just topics under review. Some may have merit, while others may best be forgotten. They are offered merely to encourage further discussion and review in examining the program.

We are also taking a look at legislative "mandates" or "earmarks." We recognize that they all have an important legislative history and purpose. However, we are concerned that over time the cumulative effect of legislative requirements may have had some negative consequences.

For example, some of the current earmarks may work at cross purposes. For monetization programs, the Title II tonnage minimum and subminimum mean that program administrators may choose commodities which provide the highest tonnage rather than the most value at the lowest cost. The tonnage minimums may reduce the effectiveness of programs designed to meet the legislation's 10 percent monetization requirement. The effect may be more money spent on transportation and a less useful commodity provided to the country.

Similarly, processing requirements can also run up against the subminimum. While large wheat programs make the most nutritional and programmatic sense for some on-going feeding programs, the 75 percent processed, fortified or bagged requirement puts pressure on program administrators to make adjustments which may significantly add to the cost of the program without improving the effectiveness of the aid. Also, under a limited budget, it may reduce the amount of commodities that can be programmed.

If the Committees are interested in preserving a significant amount of U.S. processing, fortifying and bagging, we may want to examine the possibility of adding more processed commodities to market development programs while reducing the amount required under the current humanitarian direct feeding program.

We also are revieving the Section 416(b) donation program. Currently there are several alternative approaches under which the Secretary of Agriculture can make CCC stocks available for donation overseas. Program costs can vary significantly with the purpose of the donation. In considering reforms to P.L. 480, we need to keep in mind implications for Section 416 and possibilities for integration of all of our commodity programs.

I appreciate the opportunity to testify before the committees. The pending reauthorization offers the opportunity to reflect on past performance and consider the future. This requires open and frank sharing of assessments and ideas. As I mentioned in my introduction, I believe strongly that P.L. 480 has often made a life-or-death difference for the World's hungry. It has also contributed to economic development as well as expanded markets for U.S. goods abroad. The question as we enter the nineties is whether we can't do more to improve the efficiency and effectiveness of the limited resources we have available.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, DC, December 12, 1989.

The Honorable PATRICK J. LEAHY,
Chairman, Committee on Agriculture, Nutrition, and Forestry, United States Senate, Washington, DC 20510.

DEAR MR. CHAIRMAN: In response to your letter of November 13, enclosed is the reply to Senator Lugar's questions with regard to the November 7 hearing on the Reform of Public Law 480.

Sincerely,

ANN M. VENEMAN,
Deputy Under Secretary for International Affairs and Commodity Programs.

Enclosure.

ADDITIONAL QUESTIONS FOR USDA FROM SENATOR LUGAR

Question. Is the Department aware of any situation in which shipping agents involved in Public Law 480 transactions have agreed to return all or part of their commissions to the government of the countries which are receiving the commodities or to any person or organization in those countries?

If so, is this practice permitted by law or by departmental regulation?

Answer. Under the Title I, Public Law 480 (P.L. 480) program for fiscal year 1989, three countries had agreements with shipping agents which provided for the agent to share all or part of the commissions due for arranging ocean transportation with the government of the importing country. The practice of sharing a commission with the importing country is not prohibited by law or regulation. However, section 17.8(c)(2) of the Title I, P.L. 480 regulations (7 CFR § 17.8(c)(2)) provides that a commission paid to the government of the importing country is ineligible for financing under P.L. 480.

Title I, P.L. 480 importing countries do not directly pay for the services of shipping agents, nor does the U.S. Government. Commissions are paid by the shipping company from freight revenue as in normal commercial practice.

Under the Title I, P.L. 480 program, the Department of Agriculture usually pays only the ocean freight differential portion of the U.S.-flag freight costs. This is the difference between the rates for the U.S.-flag vessels required to be used by virtue of the cargo preference requirements and the rates for the foreign-flag vessels which the importing country would have used, as determined by the Department, in the absence of cargo preference requirements. If a shipping agent shares its commission on U.S.-flag vessels with the government of the importing country, the Department deducts a pro-rata share of that amount from the ocean freight differential that would otherwise be paid. Thus, the Department does not pay the portion of the ocean freight differential equal to the amount of the commission which is shared with the importing country.

The CHAIRMAN. I understand. And I appreciate they are under review. What I would really appreciate more, though, is if they would get the review done and tell us where they are because—and I emphasize my reason for doing that—I want to be able to make sure the administration is heard before we move forward. Otherwise, we will go ahead with or without it.

Ms. VENEMAN. We fully understand.

The CHAIRMAN. I am glad to know all the things that are under consideration. I have a number of my own, too. But, thank you.

Ms. VENEMAN. Yes. We understand that, Mr. Chairman, and we will absolutely do our best to get something up to you as quickly as possible and to continue to work with you and your staff.

The CHAIRMAN. I am not suggesting you are not doing your best. It's just that sometimes we have to have signoffs for the sake of signoffs in the administration. I would prefer that the administration had been here with both Democrat and Republican views. I'd

like to just remind them that sooner or later, along with the titles and the salaries, comes a requirement to make a decision. Does the administration want to do away with Public Law 480? Expand it? Do something, but just make a decision. And then we will go with it.

I know you are working very hard. I know you have been working with my staff, and I appreciate that.

Mr. Christenson.

STATEMENT OF PHILIP L. CHRISTENSON, ASSISTANT ADMINISTRATOR, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, DC

Mr. CHRISTENSON. Thank you, Mr. Chairman.

Ms. Veneman has done an excellent job in describing the current situation in the administration, and I have been asked to help shorten this process. So I am not going to try to repeat what she has said. Needless to say, our testimony was cleared by both agencies, so we have the same testimony. [Laughter.]

Really, everything I say here has just been said.

The CHAIRMAN. We understand the advantage of being in elective office when it comes to clearing things, we Senators are merely constitutional impediments and requirements for our staffs to do things, and as soon as they sign off we are allowed to say whatever we want to say. [Laughter.]

I knew you would appreciate it, and you know that the power lies not with the hundred titleholders who are there only because the Constitution requires it and only because the staff are strict constitutionalists. [Laughter.]

Go ahead.

Mr. CHRISTENSON. Thank you, Senator.

THE LEVEL OF CONCESSIONALITY

Among the issues that we are looking at and where there may be room for change in Public Law 480 is the level of concessionality.

Alan Woods, our late Administrator, used to ask whether it made sense to lend money to countries for 30 or 40 years to buy consumable goods that would be consumed in 90 days while our capital goods assistance is given on a grant basis.

WE ARE ALSO LOOKING AT WHETHER FOOD AID CAN BE BROUGHT INTO LINE WITH OUR ECONOMIC REFORM POLICIES

We are also looking at whether food aid can be brought into line with our economic reform policies. For example, if we move to a grant food aid program, we might be able to structure a program that will more effectively promote private sector rather than public sector activities in food marketing.

Our current program, based on the 40-year-loan concept for title I, almost invariably seems to require the existence of a Government food monopoly agency or some other state-owned food distribution organization. These organizations are often highly inefficient and, infrequently, are not quite up to the highest standards of financial and business probity.

One possibility would be to convert the terms of the current Public Law 480 program to something akin to the food aid program which we are now administering under the terms of the Zorinsky amendment, which requires that 15 percent of our commodity import programs be devoted to importing U.S. agricultural products.

ANOTHER ASPECT OF THE PROGRAM WE ARE EXAMINING IS HOW TO MAKE IT BETTER FIT FISCAL AND OTHER POLICY REFORMS

Another aspect of the program we are examining is how to make it better fit fiscal and other policy reforms being urged upon developing countries by the United States and other donors.

For instance, the requirement in Public Law 480 that the self-help measures undertaken by recipients be in addition to those measures they would have normally taken conflicts with the advice that we and other donors are giving those same recipient countries to reduce their Government expenditures. The special accounts we require for Public Law 480 sales generated local currency generations may conflict with the financial management reforms that we, with the World Bank, are urging them to adopt. We actually have situations where our development assistance programs urge them to streamline their financial management yet, at the same time, our Public Law 480 program seems to make it more complicated.

WE ARE LOOKING AT HUMANITARIAN FOOD AID PROGRAMS

Finally, we are looking at humanitarian food aid programs, which are very important parts of the program, to explore whether there is a need to improve the relationship between the Public Law 480 program—and I emphasize it is an overall program, not just AID—and the PVO, or voluntary agencies that are an essential element in the distribution of our humanitarian food aid.

Costs are rising, accountability standards are rising, and it is becoming a very difficult challenge for the private voluntary organizations to manage food aid at the level and with the intensity of management that is being expected of them.

WE ARE EXAMINING INSIDE THE EXECUTIVE BRANCH OUR OWN PROCEDURES WITH REGARD TO FOOD AID

Finally, we are examining inside the executive branch our own procedures with regard to food aid. Authority for food aid is fragmented among several different agencies, and even within the agencies there is a further fragmentation of authority. While AID is usually held solely responsible for all problems with food aid management, four other agencies have acquired an equal voice in the management of the program.

Last year the House Committee on Government Operations issued a report urging the President to direct a reexamination of the management structure of Public Law 480 and to revise his delegations of authority. We are responding to that committee's recommendation as part of our overall examination of the food aid program.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Christenson follows:]

STATEMENT BY

Mr. Philip L. Christenson

Assistant Administrator, Bureau for Food For
Peace and Voluntary Assistance
U.S. Agency for International Development

Before the Committee on Agriculture,
Nutrition,and Forestry
U.S. Senate

Tuesday, November 7, 1989

INTRODUCTION

Mr. Chairman and members of the Committee, I very much appreciate the invitation to appear before you to discuss the success and the problems which the P.L. 480 program has experienced in meeting its objectives of promoting food security and feeding the hungry.

Food for Peace, or P.L. 480 as it is also known, is jointly administered by the Agency for International Development and the U.S. Department of Agriculture. Over its 35 year history this program has served multiple objectives to advance U.S. foreign policy and national interests:

- to combat hunger and malnutrition
- to encourage economic growth in developing countries;
- and to develop export markets for U.S. agricultural markets for U.S. agricultural commodities.

Over the years the emphasis placed on individual objectives has shifted in response to changing domestic and international economic conditions. As you have requested, my remarks today will focus on the use of food aid primarily to combat hunger and malnutrition.

Addressing the fundamental issues of hunger is one of A.I.D.'s foremost priorities, and the P.L. 480 program offers a major national instrument to translate into action the concern which U.S. citizens have for the poor in developing countries. This occurs in a number of ways.

First, U.S. food aid is provided for emergency relief to prevent mass starvation in disaster situations caused by wars, famine, earthquakes and other natural and man-made disasters . To be effective, such efforts require early identification and location of the problem areas, efficient administration, fast transport and coordination of relief efforts.

Second, U.S. food aid is used to alleviate chronic malnutrition, which takes its greatest toll among infants and young children. For those who do not die of it, the adverse effects of malnutrition are lifelong. Targeted nutrition education programs and food supplements which enable the poor to stretch their budgets and obtain both more and more nutritious food, are important components of our Title II programs.

Third, in the longer-run hunger can be eliminated only when the poor countries achieve positive economic growth, self-sustaining social and economic development, and equitable distribution of income. Permanently eliminating hunger requires a long-term commitment on the part of both developed and developing countries. Food aid is increasingly becoming an integral part of a global effort to increase Third World food production and generate self-sustaining economic growth. In the past, food aid was seen by most as simply a welfare resource or, at best, as a surplus commodity to be used to activate projects. Now, however, it is more and more recognized that food aid (and food itself) is a legitimate development resource in its own right; adequate and equitably distributed food supplies are necessary ingredients for economic growth and not just the result, or by-products of development.

During the 35 years of the "Food for Peace" program, the U.S. government has delivered over 300 million tons and $35 billion of food aid to people on almost every continent ..... an achievement for which the American taxpayer can be proud.

Throughout the history of the program Congress and the executive branch have modified the authorizing legislation and the program's operational procedures to improve its effectiveness in light of new economic and political realities. Thus, while the initial impulse for the program in 1954 was to dispose of the U.S.'s "problem" surplus of agricultural commodities, the P.L. 480 legislation and the U.S. food aid policy has increasingly evolved toward greater support for LDC, PVO and cooperative efforts to alleviate hunger and promote economic growth.

Although our food aid program is smaller than it was in the 1950's and 1960's, in both tonnage and constant dollar terms, it remains one of America's most important aid contributions to developing countries. It now represents between a quarter and a third of A.I.D.'s bilateral economic development resources (Israel excluded), and the U.S. still provides 60% of all food aid worldwide. Nevertheless, food aid is often viewed as a troublesome and inefficient resource to use to combat hunger and promote development and, for some of the reasons described below, has gained a reputation as a "problem child" in "development" circles.

There is a widespread feeling that significant improvements in P.L. 480 can be made. In both executive branch and congressional offices, a consensus has emerged in recent years that the food aid legislation needs updating. The program's objectives need clarification and administrative procedures need streamlining. This consensus has been generated by some of the program's administrative inefficiencies, the Congressional and executive branches' joint initiative to rewrite the Foreign Assistance Act , Alan Woods' report, "Development and the National Interest", the various Aid-Trade "Missions", A.I.D.'s series of food aid studies and workshops, commodity group support for expanded export subsidy programs, etc. Reform proposals have come from various executive branch offices, commodity groups, some PVOs, the Land Grant Universities and various research institutions, such as the International Food Policy Research Institute.

II. PROGRAM IMPROVEMENT OPPORTUNITIES

In the following sections I will describe (a) some food aid policy conflicts and administrative defects in the current program, (b) nine separate P.L. 480 reform proposals that have been made in recent months, and (c) some of the key, cross-cutting issues which are being discussed at the present time. I must stress Mr. Chairman, that the climate for discussion in both the congressional and executive branches is very positive, open and frank, and in my view will eventually result in productive resolution in the year ahead.

A. Policy Conflicts

(i) U.S. Third World Debt Policy

It can be argued that the current Title I program which provides food aid on a loan basis is inconsistent with some aspects of our economic and fiscal reform agenda in the recipient countries. Long term, highly concessional food aid loans may have been an appropriate response during the immediate post-war

years when food aid was a continuation of the basic concepts of the Lend Lease program and the Marshall Plan. It could be fully expected that the European countries would soon reestablish themselves economically and would be in a position to repay the loans. But is this still true today when we extend Title I loans to purchase food for Somalia, Zambia, Peru, Sudan, Zaire and other heavily indebted nations? Is it appropriate to encourage countries to borrow money for thirty or forty years (even on highly concessional terms) to finance the import of consumable products? We now provide Development Assistance and Economic Support Fund on grant terms for capital development to deeply indebted nations, but lend on 40 year repayment terms for consumables to the same countries. This apparent inconsistency needs examination.

(ii) Failure to Promote the Private Sector in Recipient Countries

It is the policy of the United States Government to promote the private sector development in developing countries and reduce public sector participation in the fields of commerce and agriculture. Yet, the current P.L. 480 program is so structured that the vast majority of U.S. food aid agreements work best when negotiated with a government for implementation through parastatal food corporations or monopolistic food ministries. Since over half of the U.S. government's food aid is provided on a long term loan basis, and very few private sector businesses can guarantee 40 years of repayments, our food aid loan program forces us to deal directly with governments. We need to think of innovative ways to use the bulk of our food aid program to promote the expansion of private sector involvement in developing country food markets and distribution systems.

(iii) Conflicts with Economic Policy Reform Efforts

P.L. 480 Title I "Self-Help Measures" must be "in addition" to what the government would have done without the food aid. This "additionality" provision, as well as local currency usage policies, may no longer fit into our economic and fiscal reform agenda in the recipient countries. Nations which have just agreed to tough IMF and World Bank supported structural adjustment programs are required by our Public Law 480 to undertake "additional" measures because of the provisions of Title I food aid agreements. No doubt, there may well be a certain amount of dissembling in our agreements about the additionality levels, but they are required. It might, therefore, be timely to address reality. Strict compliance with the current law is difficult for both the recipient governments and our own executive branch.

(iv) Local Currency Policy Confusion

There are differences of opinion concerning authority and responsibility for local currencies generated from the sale of commodities imported under Title I loan agreements. There is also a gap between the A.I.D. IG views and those of the governments of the recipient countries. Recipient governments believe that since Title I agreements are "sales" agreements for which they are obliged to repay the entire amount of the loan in

dollars (with interest) they should not also be required to adhere to strict accountability to the U.S. government for what they do with the proceeds of the resale of the purchased commodities.

There are also inherent management problems when A.I.D. tries to manage funds held in special accounts owned and managed by another government. On my recent mission to South and Southeast Asia it was argued by A.I.D. management and by host government officials that U.S. and other donor special accounts "Balkanize" and unnecessarily complicate foreign government financial management and accounting procedures. For many recipient governments, qualified financial managers are difficult to recruit and retain. In short, our local currency policies may be exacerbating the management problems of what is often a weak ministry. Our local currency policy also conflicts with the financial management policies we (and the IMF and World Bank) are trying to inculcate in our DA funded financial management projects.

(v) Market Development vs. Surplus Disposal

Although P.L. 480 lost its surplus disposal purpose in 1966, the 12 year history of the program had firmly rooted certain procedures and attitudes that arise from the earlier surplus disposal goal. The Secretary of Agriculture determines a "docket" every year to allow a commodity to be used in the P.L. 480 program. No such requirement exists for the CIP program which, in several countries, is much larger than the P.L. 480 food aid program. This "docket" requirement mitigates against multi-year agreements, even though the annual sums now on the table for discussion are not proportioned to the policy reform and local currency conditions of the agreements particularly when viewed in light of debt repayment demands

Possibly because food aid conjures up notions of starving people desperately seeking any source of nourishment, the "docket's" underlying premise is that the U.S. Government can, with relative ease, change the nature of the product we provide to coincide with our own domestic supply status. But since about 70% of our food aid is sold to the ultimate consumer, not donated, product marketability is an important, and even essential aspect of the transaction. An availability determination, which limits the variety of agricultural commodities available for program use, therefore reduces program flexibility and mitigates against market development objectives for other agricultural commodities.

(vi) Emergency Food Aid

Improvements could be made in the area of Emergency food assistance. A.I.D.'s Office of Foreign Disaster Assistance (OFDA) is a separate entity with very limited assured funding. A considerable amount of personnel time (and time that is critical to the saving of lives) is spent in bureaucratic arguments about who will pay for the logistical expenses in moving food aid in crisis situations. This is not a reflection on any one office, but suggests a structuring that complicates swift response.

(vii) Food Aid and Hunger

It appears that although the primary rational for a U.S. government food aid program is the developing country hunger problem, taken as a whole the current P.L. 480 program does not address that problem with sufficient directness. By all accounts, the absolute numbers of hungry people in developing countries has increased since the law was passed in 1954, but as a result of earmarks, the program's governance structure and various policy decisions, a good deal of the current food aid program is not directly related to hunger, "need", agricultural or food system development, greater food production, food security or even development. Much of our food aid does not go directly to hungry people, but instead is provided to achieve macro economic objectives (foreign exchange savings, general budget support by the recipient), economic policy reform, market development, short-term U. S. foreign policy objectives, and the particular interests of U.S. special interest groups. We need to decide whether and how we can reorient the program to better address the persistent and growing hunger problem.

B. Administrative Defects

(i) Fragmentation of Program Authority

Authority for food aid policy formation and program administration is fragmented and diffuse. Among the actors involved in the process are the numerous USAID Missions, AID/W, at least one bureau of the State Department and often two; the Foreign Agricultural Service at USDA, the Agricultural Stabilization and Conservation Service at USDA, at least one office at the Department of the Treasury and OMB. This fragmentation can slow the decision process and sometimes results in unsatisfactory outcomes.

(ii) A.I.D. Accountability

Although authority is fragmented, responsibility for program administration and accountability are concentrated in A.I.D. and USDA. Over the past several years, there has been a government-wide trend to raise by significant margins the level of accountability and program integrity demanded of government programs. Possibly because the program is administered by several agencies and receives authorization and appropriations from four separate congressional committees, there is a disconnect between operating expenses and the program's size and accountability standards. The Agriculture Committees in the Congress during the consideration of the 1985 Farm Bill laid down a host of new requirements, many of which were highly personnel and OE intensive, without any additional funding for A.I.D. In addition, A.I.D. acts as USDA's "agent" for Section 416 programs without any commission or reimbursement to cover additional operating expenses. (Section 416 tonnage levels rose dramatically from 87,827 metric tons in FY 1983 to 2,376,721 metric tons in FY 1986.) A.I.D.'s Inspector General has frequently remarked that the level of management resources available to manage food aid is inadequate to maintain even minimal standards of program accountability and integrity. I

support that view. But I also believe that there is a more fundamental problem which relates to the separation of authority and accountability. We should examine carefully in the coming months the linkages between decisions on program size and authority and decisions regarding resources allocated for administration and accountability for the program.

(iii) Food for Work

Food for Work is difficult to administer in the field. For example, recipients often sell the food they receive to local brokers because they do not have the wherewithal to cart the food back to their families. People come from long distances to participate in the programs and leave their families behind. Should Food for Work be converted into a work relief program funded through cash provided by monetized food aid? This has been successfully tried in the past, but not fully utilized because of a belief that cash-for-work projects funded by monetized food aid are inappropriate. This policy needs examination.

(iv) Title II Humanitarian Feeding

Many believe that we need to find ways to relieve the Title II cooperating sponsors of unnecessary administrative demands. There are enormous management demands made on the VOLAGS. For example, CRS alone has 5,400 distribution points in India and 25,000 distribution points in the Philippines. Serving as a cooperating sponsor for Title II activities is very management and manpower intensive...the VOLAG assumes legal responsibility for the commodities from the U.S. port to the time it reaches the intended beneficiary. The logistical complications -- and possibilities for abuse and spoilage -- of these perishable foodstuffs are significant, and the PVOs are vulnerable to claims and legal suits at any stage of the process.

The two major VOLAGS in the program, CARE and CRS, are mature charitable organizations with little prospect for a major expansion in their ability to tap private resources to support food aid distribution costs. As the costs of food aid management rises (not only with inflation and an increasing standard of accountability, and VOLAG direct feeding operations shift from the relatively low-cost areas of Asia to high cost countries in Africa), these organizations are becoming more and more concerned about food aid program management.

Other financial strains emerge from the increasing focus of using food aid for development. Development oriented food aid programs are more management-intensive and administratively expensive to carry out than, for example, school feeding activities. Funding levels have not kept up with the demands made on the cooperating sponsors. Increased dollar or local currency funding of PVO food aid activities could well be warranted.

A.I.D. and particularly my Bureau, has spent much time trying to improve the relationship with the VOLAGs. But it seems to me that the real issue is not the relationship between us and the VOLAGS but the relationship of the P.L. 480 Title II program and the VOLAGS. The P.L. 480 law requires that 1.4

million tons of foodstuffs be moved through the VOLAGS and/or the World Food Program, but only the most limited funding of the VOLAG activities is appropriated for this effort. Perhaps we should consider allowing the use of the proceeds from monetization to pay personnel and associated costs.

(v) Confusing Number of Food Aid Program Types

The bilateral food aid program is saddled with program distinctions and categories which have become increasingly blurred, complex and cumbersome to administer. Loan-based program food aid, for example, has been converted into grant food aid through a projectized grant program through Title III and Food for Progress legislation. And Title II, which was originally designed to be humanitarian, projectized grant food aid, has been converted through Section 206 and recent PVO-initiatives into "monetized" program food aid. In addition, our C.I.P. program, which is not even considered by most to be a food aid program, will move over one million tons of U.S. agricultural products to developing countries next year. The bewildering set of program "spigots" complicates program administration, and using the resource for developmental purposes is further constrained by conflicting objectives, legislative mandates, and interest group subsidies. We are currently examining the legislation to see if there are "streamlining" opportunities to reduce administrative complexity and improve program effectiveness.

III. SURVEY OF P.L. 480 REFORM PROPOSALS

As a result of these and other operational problems, numerous executive branch and constituency-driven proposals for food aid reform have arisen during the past year, and we believe that there is, in general, strong support and momentum for a significant improvements to the legislation. I have categorized below the various proposals which range from a "status quo" approach to elimination of P.L. 480 altogether. Although other options will no doubt develop in the future, the list below is a reasonably comprehensive survey of ideas currently being considered.

A. Reconvert P.L. 480 to a Market Development/Trade Promotion Program

Some see the Third World as U.S. agriculture's only potential expanding export market and argue that economic development is an essential precondition for market development. But others view developmentalists as impediments to an efficient, commercialized P.L. 480 program focused on surplus disposal and trade expansion and suggest a reorientation of the program away from the development drift of recent years toward a short-term market-development focus. Some start with the premise that the GATT negotiations will eventually force the U.S. to reduce or eliminate export subsidy programs such as the Export Enhancement Program (EEP), thus leaving P.L. 480 as the last remaining resource for market development. They therefore, suggest expanding P.L. 480 to $2 to $2.5 billion (from its current $1.5 billion) to include both market development, economic development and humanitarian concerns. Others have suggested

simply turning the Title I program into an explicit commercialized export subsidy program run (as EEP is now) entirely by USDA and devoid of any development or hunger-related criteria. While it is virtually certain that many will argue for a stronger market development orientation, others argue that food aid should not be used to promote market development since that objective can be more efficiently and effectively pursued (for the next five years at least) through other, larger ($6 billion per year) export promotion schemes such as EEP and GSM. In any case, P.L. 480's role in market development is certain to be a key issue in the policy discussions ahead.

B. Status quo

Some prefer that little or no change be made to the legislation. Others believe that the current legislation is so diverse, vague and ambiguous that it affords maximum flexibility. Those advocating this position recognize some of the difficulties which the current law presents, but they recommend administrative solutions within the current law to achieve development and hunger-related objectives. According to this view, tonnage and dollar levels, the legislation's stated objectives and purposes, local currency use provisions, the commodity allocation mechanisms, terms of agreements, and the various program types and criteria would all remain as is.

C. Minimalist Approach

Many suggest "cleaning up" the legislation at the margins where particularly acute and obvious implementation problems have been encountered. For example, Title III and Section 106/108 programs are burdened with administrative complexities. The minimimalist approach advocates insertion of carefully selected amendments that do not alter the current structure of the law, regulations, or allocation processes but instead makes precise, minimalist language amendments to facilitate flexible administration of current programs.

D. Smaller is Better

There is another school of thought advocating a reduction in the food aid program to only emergency famine relief and urgent humanitarian activities. This view argues that program food aid, 70% of the program, has only marginal developmental benefits and is positively harmful in many countries. To craft a "pure" food aid program more in line with other food aid donors and with the general perception of food aid as a hunger-related, poverty-focused program, most bilateral food aid would be terminated or shifted to explicit export subsidy programs (e.g., EEP or GSM), while the remainder (i.e., Title II-type grant food aid) would be funneled through PVOs or other entities which ensure that the benefits reach only the neediest. This view also argues that the current program is a captive of U.S. private-sector special interests and foreign policy strategists and does not approximate what the American public expects of the food aid program. In short, they believe a smaller emergency and hunger-focused program is better than the current $1.5 billion program.

E. John Mellor's Approach

John Mellor, the Director of the International Food Policy Research Institute, agrees with others that the Third World is the only long term growth market for U.S. commercial agricultural exports. He argues that the most efficient, effective way to develop that market is to help those nations get their food and agricultural sectors moving which, in turn leads to long-term per capita income growth and a simultaneous reduction in hunger. He recommends that the industrialized nations help eliminate hunger and simultaneously build commercial markets by investing $20 billion dollars and 20 million tons of food aid per year (roughly double today's world levels) for a 20 year period. The investment would be focused on the rural, agricultural areas where most of the hungry live. This proposal implies that the U.S. take a lead in mustering international donor support and a long-term commitment to end hunger and build markets through development.

F. A Food Security Initiative

In the past few years a set of ideas has evolved which have yet to be fully incorporated into A.I.D.'s food aid policy. The world hunger problem is not viewed as primarily a supply problem as it was in the 1950s, 1960s and even in the 1970s. It is thought that economic "access" and income are clearer determinants of hunger than food supplies or agricultural production. This fundamental reorientation has been captured under the rubric - "Food Security" - a term which marries economic growth concerns with "access" and safety net concerns, thereby suggesting a balm to the tensions evident between competing development constituent groups. It incorporates agriculture community concerns and acknowledges PVO disenchantment with traditional relief "feeding" programs in favor of "legitimate" development activities. Although the food security paradigm has not yet been used extensively to crystallize various food aid constituent concerns, Congress recognized its significance when it entitled the last Farm Bill "The Food Security Act of 1985", and the World Bank has recently established its own Food Security Unit.

This view suggests food aid legislation which is organized around "food security" as a commanding development principle, but it also recognizes trade development as a legitimate strategic foreign policy interest, worthy of food aid support. The objective would be to establish "food security" (rather than "food relief" or "agriculture") as the law's conceptual framework in order to provide greater coherence to the food aid allocation process, while at the same time providing legitimacy to several internally consistent food aid uses. For example, over time more food aid would be allocated to food insecure countries, which not only have severe hunger problems while food aid uses would be tied to activities which rectify the food insecurity, including such uses as private sector marketing, subsidy reduction efforts, policy reform, "sustainable agriculture", etc.

To implement this initiative P.L. 480 should include

emergency and non-emergency food aid, as well as project food aid and program food aid, and all of this food aid would be allocated and used according to "food security" criteria...however defined. The remainder would be allocated to potential trade partners, such as Egypt and Indonesia, with the commodity transaction separate from the local currency uses.

G. Dollar Appropriations, Not Food Aid

Some argue that dollars are preferable to food as a development resource. The argument is that P.L. 480, although less preferred, is "additional" to DA and ESF resources. Today, however, most food aid is purchased on the open/free U.S. market with appropriated dollars. With the ceilings imposed on the 150 account, there is a trade-off between food aid dollars and dollar-funded programs. Some therefore suggest that P.L. 480 be simply eliminated altogether and allocate the same dollars to A.I.D.'s ESF budget for a Cash Transfer program devoted entirely to U.S. agricultural products. In addition to whole grains, such a program would include other value-added agricultural commodities such as seeds, processed foods, timber or other commodities for which the recipient country private sector importers are prepared to import and/or pay local currency or dollars for.

H. Separate Commodity Transaction from Development Activities

This proposed approach, which is similar in many ways to the Cash Transfer approach mentioned above, responds to complaints that over the years developmental "barnacles", such as Self-Help Measures, Local Currency Uses, Policy Reform dialogue and disincentive certifications, have increasingly attached themselves to P.L. 480 agreements, and these "barnacles" have interfered with efficient commodity movements and neutralized market development objectives. One proposal is to separate the commodity transaction from developmental uses with the commodity transaction (sale) agreement implemented by one agency and the U.S.-owned local currencies used for development programs. For example, policy reform could be negotiated in exchange for a large-scale grant of U.S.-owned local currency to the recipient government, the local currency could be used to fund USG projects or cover OE expenses. Some see possible administrative advantages to such arrangements, particularly in more advanced and strategically important recipient nations.

I. Constructionist Approach

This approach calls for a restructuring and streamlining of the law, primarily to clarify objectives, program categories, authorities and administrative responsibilities. Instead of the current structure, which divides the law by form of assistance (i.e., Title I/loan vs. Title II/grant), this approach segregates the law by the intended purpose or objective of the resource. Title A, for example, might be the emergency/famine relief title. Title B would be the development and humanitarian relief title, and Title C might be the trade title designated for the more advanced developing countries such as Indonesia. Title D would authorize dollars to support program implementation. In addition, there would be considerable

cleaning up and streamlining of P.L. 480 program types to reduce overlapping program categories. As a result there would be one type of grant program food aid "spigot" in place of the Section 206, Food for Progress, Title III, etc., program categories. This approach also calls for the elimination of Section 416 as a separate U.S. government food aid program and incorporation into P.L. 480. (Currently Section 416 operates under separate legislation, regulations and guidelines).

IV. ISSUES IDENTIFICATION

It would be too complex a task to fully describe in this Testimony all of the details and program ramifications of the various proposals mentioned above, let alone develop specific options for each. Nor should anyone at this point confidently recommend wholesale endorsement of one approach over the other since they are still developing. In addition, many proposals which appear at first to be diametrically opposed to one another may turn out to have congruent and mutually supporting elements. To further clarify some of the choices, therefore, the following section identifies some cross-cutting themes or generic issues which are embedded in some or all of the various proposals.

1 - Financial Terms of Food Aid Agreements - Each of the approaches mentioned above must deal with the financial terms of the agreements. Currently the terms are grant and long-term concessional dollar loans. Some approaches suggest that food aid loans be terminated, others recommend softening the loan terms by allowing repayment in U.S.-owned local currency as we used to do in the 1950s and 1960s, and continue to do under current Currency Use Payment (C.U.P.) procedures and PVO monetization programs. Another option is direct cash sales for foreign currency (i.e., no food aid loans).

2 - Delinking Food Aid From U.S. Surpluses - Some have suggested delinking altogether the food aid program from U.S. availability determination. (Currently the Secretary of Agriculture makes a determination at the beginning of the fiscal year that the commodities are excess to U.S. domestic and export needs before any shipments can be made.) Any agricultural commodity (e.g., seeds) available on the open market would be theoretically eligible for the program and this would enhance market development aspects of the program.

3 - Disaggregate the Legislation by Objectives - Disaggregation may, in the long run, lead to a separation of market development from economic development uses. Is this reasonable or possible?

4 - Food Security Proposal - If the law were to be disaggregated by objective, all of the "titles" could be organized around the "food security" principle, including the trade-title. The last Farm Bill was entitled the "Food Security Act of 1985", but fuller incorporation of this principle into appropriate sections of the law could broaden the current law's emphasis on "rural development", "agriculture production", and malnutrition "relief".

5 - Separate Commodity Transaction - As noted above, some proposals imply a separation of the commodity transaction from

the development uses of the local currency generations. While conceptually "neat", such a change would have a significant impact on the way the food aid business is implemented.

6. - Dollar Funded Title - Some have argued for a dollar-funding under P.L. 480 to support the administration of the program. Others believe the implementng agencies should focus more of their existing resources on the program. However, most seem to agree that the program would benefit from greater intellectual capital being devoted to it.

7. - Reducing Subsidies - Any legislative action will presumably consider cost reduction or efficiency measures. Subsidies to special interest groups result in additional costs as well as administrative inefficiencies often without adding to the effectiveness in meeting the law's principle objectives.

V. CONCLUSION

It is clear to us in A.I.D. that there are numerous worthwhile opportunities to substantially enhance the utility of food aid as a development and humanitarian resource and improve food security in the Developing Nations. The interagency and congressional staff climate for discussion is very positive, constructive and not shy at all of new ideas. Of course, caution in formulating any proposal is advised since seemingly good legislative ideas can result in unintended and unsatisfactory consequences in implementation. Nevertheless, we are confident that by working together - both the executive and congressional leadership in the appropriate committees will be able to craft legislation which carry the program forward into the 1990's.

The CHAIRMAN. Has the State Department taken a position on the different proposals you have discussed?

Mr. CHRISTENSON. Mary, did you want to respond?

Ms. CHAMBLISS. They haven't taken a formal position, Senator Leahy. We have talked about them some, and I think the State Department, as all the rest of us, are considering some of them, and I think that they will be responsive to some of them. How far I wouldn't want to say.

The CHAIRMAN. What does that mean?

Ms. CHAMBLISS. I'm sorry. It means they are still deciding their position on some of the specifics, like grants. But I think certainly they would look favorably toward some extension of the grant provisions and perhaps some other changes that are being discussed by the several agencies.

The CHAIRMAN. Are they going to take an up or down position on each of the proposals Mr. Christenson has discussed? Will they say, "We're for it," or, "We're against it," on each of them? Or will they pick and choose, or what will they do?

Ms. CHAMBLISS. In my experience in the interagency process, it tends to be more of a discussion and a dialog to reach a consensus rather than an up and down process. But that's just based on past experience, and that could change.

The CHAIRMAN. Yes. I will be leaving here to go back to work on the Committee on Appropriations conference, Subcommittee on Foreign Operations; that has to do with all the foreign aid money. I am chairman of that subcommittee. We are just now beginning to get the Department's position on some of the issues that the President says are crucial or the Secretary of State says are crucial. We are finding out whether they're for or against some of the things they say are crucial. We found that some of the things they say are crucial, now are things they used to lobby against.

You know, I just want someone to tell me we're for it or we're against it. I don't want everybody to come up here and say they're for something just because they think I might be for it when they're really going to work against it (as we have had in the foreign aid bill).

Please bring this point back to them, just tell us either, "We're for it," or, "We're against it." All it requires is that somebody make a decision. Take a position. We are going to have to when we vote on them around here. We are happy to do it, but we are trying to be cooperative and give the administration a chance to say where they are.

There have been a number of reports, Mr. Christenson, we've received, that state that the auditing standards for food under Public Law 480 have been unduly strict, especially for Third World countries where the idea of distribution of food is a lot different than anything that we would consider. I wonder if you might be able to tell us about this.

Are we, especially as staff is not overly abundant, setting up auditing requirements that are so strict and so unrealistic in the Third World that by doing so we are by de facto saying "you're not going to get any food aid?"

Mr. CHRISTENSON. This is a major question that we are dealing with, Senator. I don't disagree with our Inspector General in the

sense that the standards that he is applying to this program are the standards that are set by law and regulation. He is not pushing anything beyond what is required, but possibly some legislative relief is needed.

When you give food aid or food to a U.S. school system for school food and feeding program, you are putting that food into an established administrative structure. You can give food to Fairfax County and it goes into a school feeding program that is very professionally run and a substantial amount of manpower is given to this program through the counties or school systems and school districts throughout this country.

Overseas that is not possible. The costs are much higher. To maintain an expatriate work force in a foreign country is an expensive proposition, and the conditions under which PVO's work are very time consuming.

When we were in the Philippines recently with Senate committee staff, one of the things that was said to me was that the CRS program has 25,000 feeding points in the Philippines scattered on all those "thousands" of islands. Well, to do normal monitoring and accounting, you would have to visit each of these programs once a year, and you would need a staff of several hundred people. The CRS and other PVO's cannot afford that.

Either we need to substantially increase the funding prospects—for program monitoring—and one of the things we are suggesting is that perhaps some of the title I local currency generations could be used to support the title II feeding programs—or perhaps there needs to be some relief in terms of the standards.

The CHAIRMAN. That is why I raised this issue. When I said earlier there are going to be some changes in Public Law 480 and the way it is administered in this farm bill, it is almost a guarantee. I want it to work the way it did when I was 13 years old. When Senator Humphrey went on the floor of the Senate, and asked, "what do you want to do with Public Law 480?"

I would like to see us make it realistic for the area. I understand that the response sometimes comes back, "Now we're going to have a scandal. We've got to follow every bushel of wheat, every whatever."

I cannot help but think of some of the people, including those in the U.S. Senate, who have effectively sought to kill some of the feeding programs in our country—WIC, food stamps, school lunch, school breakfast—by putting so many requirements of accounting and then changing them so many times that it is inconceivable that anybody could do it right or follow them or even keep up with them. So they never have to vote against the program, they kill it by bureaucracy.

When you look at the condition of poverty in places where Public Law 480 food goes, what do we do there?

Mr. CHRISTENSON. Yes.

The CHAIRMAN. So we will work with you on that. I am not suggesting we open the treasury door to anybody to walk in and take whatever they want. But I think we understand that, as in the example you used, going out in the Fairfax school system and the School Lunch Program, is a lot different than going out into the

Philippines or somewhere where they do an entirely different kind of accounting.

Ms. Veneman, one of the proposals for Public Law 480 reform is to have a separate title. We focused just on market development. If we had such an export-oriented title, would we need more staffing or training for FAS?

Ms. VENEMAN. Do we need more?

The CHAIRMAN. Would we if we had an export-oriented title, something that was just focused on market development?

Ms. VENEMAN. I think it's very possible that we might need additional staffing. As you know, given all the programs that we got in the 1985 farm bill, we have been stretched to the limit with FAS staff. We have done the best we can to administer all the programs we got.

The CHAIRMAN. And then you get the chairman saying where are the answers and so forth. [Laughter.]

And I am appreciative of that. That is why I am asking. If we are going to do this, I want to know whether you're going to need more staff. Tell us.

Ms. VENEMAN. That is a very good possibility, and I think we probably will need it.

The CHAIRMAN. We look at that specifically because I want it to work. I don't want to have us leave this table feeling good that we have mandated all these different things and then have you and everybody else saying, "Oh, look, that's great," but there's nobody to do it.

Senator Conrad, nice to have you here. Do you have Public Law 480 out in North Dakota? [Laughter.]

That's an inside joke.

Senator CONRAD. We deliver stocks. The high-quality grains that are part of Public Law 480 come from North Dakota, and actually many of them have been delivered to your State. [Laughter.]

The CHAIRMAN. Did you have visas for your people to get into our State? We are very particular about who comes in there.

Senator CONRAD. I understand. You even allowed me in a few weeks ago.

The CHAIRMAN. Yes, but I have been living it down ever since. [Laughter.]

No. Actually you brought honor to our State.

Senator CONRAD. Well, it was a pleasure to be there and find all those farmers in Vermont who had ideas that were very much like the farmers' in mine.

One of the things that has just recently come to my attention, we had a meeting a couple of weeks ago with the West African Millers Association, and they raised an issue of low-quality Public Law 480 wheat being dumped in their countries—and I want to put those in quotation marks. Those were the words that they used.

And the concern that they had was the following: They indicated there were two negative effects: First, their market was reduced; and second, since the quality was often low, their attempts to introduce high-quality Hard Red Spring to blend with French wheat to create a high-quality American-labeled product were thwarted.

I am just interested in observations that you might have on any inputs you have had along those lines or if you find this is an

anomaly or something that you have never heard before. I would be interested in your reaction, whoever is appropriate to answer that.

Ms. VENEMAN. Mr. Goldthwait.

Mr. GOLDTHWAIT. Senator Conrad, we have been in contact with that organization on a number of occasions in recent months. To my knowledge, that is not a problem that they have brought to our attention.

I would be rather surprised if indeed we found that the wheat that was moving under Public Law 480 for any particular program was low-quality, since we work very closely with the purchasing country in setting the specifications for each tender that we conduct with them under a Public Law 480 program.

Senator CONRAD. Well, understand what they are saying here. I don't want it to be misunderstood. What they were saying is if you compare some of the wheats that might move under Public Law 480, they are not of the quality of the Hard Red Springs. What they were saying is that in effect we undercut a potential market for ourselves by having something that is of lesser quality than the Hard Red Springs.

Have you heard anything like that in terms of a complaint before?

Mr. GOLDTHWAIT. To my knowledge we have not. I certainly have not. But I will be in touch with that group and follow up on it.

Senator CONRAD. I would appreciate that because we had a lengthy discussion that involved other matters, EEP differentials and that kind of thing. And I know that is not the appropriate subject at today's hearing, but that was of interest to them.

The other thing that I wanted to raise with you is where we are in terms of adequate reserve levels. And that does have some tie-in to Public Law 480. And I would be interested in the Department's observations in terms of what the Department's current view is as to adequate reserve levels.

If we have an extended drought, what is the current view as to our stocks and what is the current view as to what the Department's activity ought to be in terms of managing those reserves in the near-term future?

Mr. GOLDTHWAIT. That is certainly a difficult question because we are, of course, not in a position to know whether or not the drought conditions will be prolonged. We have, as you know, the 4 million metric ton wheat reserve, which cushions wheat availability for the Public Law 480 programs in times of lower-than-normal stocks. We have begun to use that reserve and, in effect, have used that or are using that 4 million tons in a way so that we will apply that cushion over several years. We used some of it last year.

Senator CONRAD. Could you give me the inventory levels? What kind of inventory did we start the year with in that reserve and where do we anticipate being at the end of the year and next year perhaps?

Mr. GOLDTHWAIT. Within the reserve we started with an inventory of 2.5 million tons. We used 1.5 million tons of it last year. We anticipate using no more than an additional 2 million tons this year, possibly not that entire quantity, so that we would leave the

fiscal year—excuse me—the market year with something between one-half a million and 1 million tons left within that reserve.

Senator CONRAD. And what is the formal title of that reserve?

Mr. GOLDTHWAIT. Food security wheat reserve.

Senator CONRAD. And so we would be talking about a current stock of somewhere in the neighborhood of 100 million bushels, roughly? It was something over that; 105 million. And so we anticipate significant depletion of that during this upcoming year?

Mr. GOLDTHWAIT. During the year we are currently in, yes, the year that we are currently programming.

Senator CONRAD. And is there an anticipated price effect once we get to a year from now and that reserve is depleted as are our other reserves? I mean, we are looking at total stocks being down significantly a year from now, as I anticipate looking across all of the reserves and looking at free stocks as well. Is that a correct understanding?

Mr. GOLDTHWAIT. It is, of course, very difficult to project prices. I believe the market has already, in effect, accounted for much of the stock drawdown during the current year that we are anticipating. So I am not sure how much more price adjustment you would see as a result of this.

The wheat reserve itself, while certainly it's a significant quantity, is not by any means a dominant quantity within the balance.

Senator CONRAD. One final question. Given these low reserve levels that you have depicted and what we look at in terms of inventory, we see significant reductions in inventory from where we have been not only in the last year but over the last several years.

The question that I get repeatedly at home is why are prices relatively weak? What would your answer be to that?

Ms. VENEMAN. Are you referring specifically to Durum prices?

Senator CONRAD. Well, Durum would be the highest level of interest, I can assure you of that, in my State. You know, there is a lynching party out looking for some folks, and maybe some of you are sitting at this table. I don't want to qualify you. [Laughter.]

The CHAIRMAN. What, the lynching party? Lynchers or lynchees?

Senator CONRAD. It wouldn't be a party in the sense there would be a celebration, you understand, Mr. Chairman.

Ms. VENEMAN. I think there is a number of reasons why we have seen prices this year that are a little less than last year.

Senator CONRAD. Dramatically less in the case of Durum.

Ms. VENEMAN. I recognize that, although the Durum prices are not dramatically less than they were in the past, prior to last year and the drought conditions that were being experienced. And I think most of our analysts are saying that the price increase last year was due to the drought and the short supply caused thereby. But the prices this year are not significantly different from what we have seen in a historic past level.

Senator CONRAD. Well, let me say to you this, that historically we have seen Durum sell at a significant premium to other wheats, now we are seeing it sell at a 20 percent discount. I mean something is kitty-wampas here. Do you have any idea of what the effect would be?

Kitty-wampas, that is a southern Vermont term, Mr. Chairman. I picked it up when I was up there. [Laughter.]

Ms. VENEMAN. I hadn't heard it in California.

The CHAIRMAN. I never go down to southern Vermont. [Laughter.]

It's too close to Massachusetts. [Laughter.]

Senator CONRAD. Well, do you have some conclusion or some help to us on how we would answer that question?

Ms. VENEMAN. Well, as I said, we have had our analysts look at this. Durum prices are not significantly lower than they were before the dramatic price increase last year, which we attribute to the conditions associated with the drought.

In terms of the premium, I really didn't come here prepared to discuss Durum prices today.

Senator CONRAD. You didn't think that you would avoid that here today, did you?

Ms. VENEMAN. As soon as I saw you walk in the door, I had just an inkling. [Laughter.]

Senator CONRAD. You knew it was coming. Well, that's good.

The CHAIRMAN. We're just a predictable old committee here, you know.

Ms. VENEMAN. Chris.

Mr. GOLDTHWAIT. If I might add a word, some of the other qualities of wheat are experiencing stronger than normal prices as well. So the price relationships are reflecting the fact that the supply situation for the various qualities is not what it usually is.

Senator CONRAD. Well, I could pursue this for a long time, Mr. Chairman, but I don't want to impose on my colleagues. So I will end it there. But we still have a lot of talking to do about this subject.

The CHAIRMAN. Thank you, Senator Conrad.

Senator Gorton.

Senator GORTON. Thank you, Mr. Chairman.

With considerable justification in both the bulk of your written and oral testimony and of your answers to questions you have dealt with the impact of the Public Law 480 program and the section 416 program on our domestic agricultural economy.

Of course, you know, one of the statutory goals of at least some of the titles is the encouragement of the development of free enterprise and of agricultural marketing and production capacity reform in the recipient countries.

Perhaps each of you could take a couple of minutes to tell me how well you think those goals have been met, in what countries, and whether or not they are appropriate goals and whether they need any changing.

Mr. CHRISTENSON. Well, Senator, the development of overseas agricultural productivity is a very high goal, very high on the list of AID's economic development activities. The Public Law 480 program contributes to that in two ways. One is that the local currencies generated from the sale of Public Law 480 products can be reinvested in that country into agricultural productivity or things that are related to agricultural productivity such as roads, input marketing activities and the like.

It can also, by raising the nutritional standard of the poorer people in a country, raise their productivity. In many countries that we deal with, the very poor are so malnourished as to be only

marginally productive. Their life is so circumscribed by their poverty that they have little opportunity to educate themselves or to educate their children, on how to be fully productive. Their human needs are not being met by their nutrition.

We are looking at ways to try to make this program more effective, and the notion that one could perhaps privatize the distribution system for food in a country is one that strikes us as good for U.S. agriculture and simultaneously for the American farmer.

I say it may be good for U.S. agriculture because American businessmen are not allowed to offer bribes or under-the-table inducements. That is prohibited by our law and it's prohibited by our consciences. American businessmen don't like to work in that type of environment. And the private sector doesn't have that kind of problem. A Government parastatal corporation may have high levels of corruption, but you don't need to bribe somebody, you just offer them a better price if he's in the private sector.

By privatizing the distribution network, you should also raise prices for the farmers, the producers in that country. In many countries it is the Government that keeps the price down in order to benefit urban consumers to the detriment of the rural producers.

In many countries, one of our major agricultural reform efforts is to get them to raise the price to the producer.

Senator GORTON. You have described both the problem and what you would like to do very well. Tell me whether you have had any success stories in this connection and, if so, where? What is the key to the success?

Mr. CHRISTENSON. I can't name names, Senator. I really wouldn't do that, even if I could. I know some countries that I would not want to discuss in an open hearing. It just wouldn't be proper to single them out.

I can say there is one country where we have negotiated with the country, trying to get them to raise the price of rice. When they came to us to ask us for Public Law 480 rice designed to lower the producer price of rice, we said no. They wouldn't like being singled out, but that is how we are trying to manage this program.

Mr. GOLDTHWAIT. Senator, three countries where we have made particular efforts under the so-called Food for Progress legislation to do the sorts of things that Mr. Christenson has just described are Madagascar, Indonesia, and Guinea. Again I am not prepared to give you the specifics of what has been accomplished in those particular countries, but I can tell you something about two other countries I am a little more familiar with, Ghana and Sri Lanka, where indeed I think the assistance that we have provided through Public Law 480 on an ongoing basis has considerably strengthened the hand of the Government as it attempts to become more market-oriented and to strengthen its economy.

In Ghana, for example, I think the assistance that we have provided now for a number of years has been very helpful to that Government as it has tried to implement a very stringent IMF program which has nonetheless been significantly successful. And I think that country has made some great strides toward a turnaround in getting its economic house in order.

Senator GORTON. You have had some success stories in connection with these parts of these acts?

Mr. GOLDTHWAIT. Yes, that's correct.

Senator GORTON. And does that mean that you would like simply to have that authorization continue unchanged, or are you going to make any recommendations for changes or amendments?

Mr. GOLDTHWAIT. My initial reaction is that these particular sections of the law work very well and we are satisfied with the authorities we now have in that particular area of the law.

Senator GORTON. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Gorton.

Senator Bond.

Senator BOND. Since we have covered a wide range of subjects from commodity pricing programs, et cetera, I thought I would ask about a grain quality problem that was raised earlier, something that we are addressing in another committee, in the subcommittee and this committee. But I came in, and I apologize for being late, on a discussion about the quality standards on some of the food aid we have sent abroad.

Are there any quality standards currently on that grain? Do countries have to accept, on concessional loans, do they have to accept whatever grade we send them? What kinds of controls do we place on grain that we ship overseas?

Mr. GOLDTHWAIT. As far as specific tenders are concerned, the country itself sets the quality specifications that it wishes to purchase under. And we strive to make sure, as we do for all shipments, that those specifications are met. We issue a certificate of that quality just as we would for any commercial transaction.

Senator BOND. Do you inspect it independently? Do you rely on FGIS?

Mr. GOLDTHWAIT. FGIS does the inspection.

Senator BOND. So, is the inspection similar to what would be conducted on other shipments?

Mr. GOLDTHWAIT. Exactly the same.

Senator BOND. All right.

One of the questions that always concerns me, I would say mostly, with the numbers of wars, the problems we have had in the Sudan and Ethiopia. Are there any suggestions you have, or what actions can we take to make sure that when we send food aid it gets through to the people in need?

I know this is a continuing, large-scale problem. But what are we doing now? What can we do better about it?

Mr. CHRISTENSON. That is really the hardest problem of all in the food aid business. What you have happening in Africa right now is about 10-, 20-year-old civil wars that have caused widespread starvation and misery throughout the continent. It is really impossible to guarantee that the food is getting to those who need it. In some cases we are just putting food on the other side of a battleline. That's what we're doing in Mozambique.

No AID or embassy employee and no PVO employee is going to be asked by me or anybody in my Bureau to go over and check on the other side of this battleline on whether the food has been properly distributed. We are hoping that somehow by providing food into an area of conflict, that somehow the increased availability of food will benefit those in need. But we can't do it.

Senator BOND. I just question, whether you have some better assurance, whether just putting out food across the other side of the battlelines assures that the soldiers are better fed or whether any of that is going to the people in need.

Do you have a means of assuring that you aren't helping to sustain the conflict by providing the food for the warring armies?

Mr. CHRISTENSON. Senator, to be perfectly honest, I have heard of cases where it has been said that the army gets one bag and the civilians get one bag. If you want to feed the civilians, you have to accept these losses. Otherwise the civilians will starve.

In the end, soldiers will eat. They have guns and they will take the food away if they need to.

So we just have to, in these civil war situations, do the best way we can and don't ask anybody to go out and get killed. Truck drivers routinely get killed in our aid programs trying to get food into southern Sudan or into some parts of Mozambique.

Senator BOND. Another thing that interests me a great deal, you discuss some of the conclusions in the AID report that came out early this year, and in your written testimony you point out some of the anomalies in the program, that we make grants for capital development yet we provide loans to purchase food for some of the poorest countries in the world.

Is there any reason why we shouldn't just change that policy and admit that if we're going to require minimum payment, establish that rate up front and give them the food? Is there any logic for trying to continue to transfer food under a so-called long-term concessional loan program when there is just almost no chance at all of getting any repayment?

Mr. CHRISTENSON. That is a very important issue to us. Our late Administrator used to ask why we should lend money for 40 years for food stuffs that will be gone in 90 days. And I think it's a very good question.

There is one anomaly of the Public Law 480 program which is unlike any other loan program in that the payments are recycled back into the Public Law 480 program.

Over a period of time, if you went to an all-grant program, you would have either a smaller program or a need for a larger appropriation. And that is one of the issues that we have to resolve before we can come up with a formal recommendation.

Senator BOND. Well, wouldn't it make sense to get whatever money you could up front for this year's supply of aid and if it was a fat year you could get more, if it's a lean year you're not going to get anything, but at least recognize your losses when you take them rather than stretching it out for 40 years and going through the fiction that they might someday get some of it back?

Mr. CHRISTENSON. I agree with you entirely, Senator. We seem to be generating trips to Paris to reschedule loans. [Laughter.]

We seem to get the loans rescheduled, we do a Public Law 480 agreement with a country, and they default on other loans a few months later. It seems to be a vicious circle that might be worth getting us out of.

Senator BOND. Well, it seems to me, Mr. Chairman, that there are a number of aspects to this program that have been brought

out in the testimony today that really require some serious rethinking.

I think the other, the impact of the loan program is requiring all the aid to go to governments, as you pointed out in this paper, and rather than helping to develop a private sector food distribution network, you go to a government which, if it doesn't have the resources, at least has the gall to say we'll be around 40 years from now to pay it back. And it doesn't really put the country in any better position to move it toward a more effective distribution system.

Mr. Chairman, I think there is a lot here for us to consider, and I won't carry the questioning any further, but I think that there is much that we ought to work on.

I thank you all for your testimony.

The CHAIRMAN. Yes, Senator. There will be a number of changes made in the Public Law 480 program next year. And we are seeking not only the administration's but everybody else's input into that.

I thank you all very, very much, Mr. Christenson, Ms. Veneman, and your colleagues, for coming here. I hope you found it as enjoyable an experience as I have. [Laughter.]

Mr. CHRISTENSON. We have.

Ms. VENEMAN. Thank you very much.

The CHAIRMAN. I mean that seriously. I am delighted to have you here. I know you're working hard on that. I just am trying to give you a chance to send a message back there.

If we could have the next panel: Senator Melcher, Peggy Sheehan, John Donnelly, and Ronnie Gollehon.

John, delighted to have you back here.

I am going to turn the gavel over to Senator Daschle while I go off to the Subcommittee on Foreign Operations. I would rather stay here, but I have to leave.

Senator DASCHLE [presiding]. John, we are pleased to see you back into a chair in which you have sat many, many times. We are delighted you could be with us.

To the rest of our panel members, on behalf of the chairman and all the committee members, let me emphasize our gratitude to you for coming. I invite you to proceed with your testimony as you see fit. Of course your full statements will be submitted for the record. We generally allow 5 minutes for testimony and then ample time for questions.

So, John, let's begin with you.

STATEMENT OF JOHN MELCHER, CONSULTANT, WASHINGTON, DC

Mr. MELCHER. Thank you very much, Tom, Kent, and Slade.

I have often heard: "I have got my written testimony and I will just summarize." I found out that the written testimony, when read, could be read in 5 minutes and the off-the-cuff summary took 15 or 20 minutes. [Laughter.]

So I am going to read.

HOW DOES PUBLIC LAW 480 FIT INTO FUTURE PLANS FOR AMERICAN AGRICULTURE?

In preparing the 1990 farm bill, one of the questions that confronts the committee is, "How does Public Law 480 fit into future plans for American agriculture?"

RECOGNIZED AT HOME AND ABROAD AS BENEFICIAL ECONOMICALLY BOTH FOR US AND DEVELOPING COUNTRIES

The Food for Peace Program is 35 years old. It is recognized at home and abroad as beneficial economically both for us and developing countries. While the general praise for Public Law 480 emphasizes its humanitarian accomplishments, in which I concur, my objective is to *advocate and emphasize the economic impact Public Law 480 has made in developing countries that benefits both them and us.*

A few moments ago, Slade, you were asking about documentation of countries, and I think my next comments go to that.

DOCUMENTATION OF COUNTRIES

The Department of Agriculture Economic Research Service traced the results in Public Law 480 recipient countries in regard to its effect on our own agriculture and economy. The results: Food assistance invigorated their economy, improved their agriculture, and also expanded their agricultural exports.

That was for them. For us, as their economy improved, with accompanying higher nutritional levels for their people, they more than doubled their imports of U.S. grains. These results answer the "think-tank" ponderings on the question, "Does food assistance to developing countries hinder their agriculture?"

The answer is "NO." Developing countries have to develop their food base, but people with low nutritional levels lack the vigor to improve their productivity.

The Economic Research Service evaluation only records the growth in U.S. grain exports to developing Public Law 480 recipient countries. But as surely as day follows night, their improving economy opens doors for other U.S. goods.

You may hear from a variety of sources that expanding agriculture throughout the world makes food aid such as Public Law 480 less needed.

QUESTIONS THAT HAVE BEEN EVALUATED

How much food is produced in countries that export part of their production? How much food is needed in food-short countries that are too poor to buy it commercially?

Those questions have been evaluated. Even with improving agricultural production in 12 developed countries and the increased food and fiber production in countries such as India and China, the quantifying of total food needs finds more food aid is needed.

THERE ARE TWO BASIC FACTORS THAT INCREASES FOOD DEMANDS

There are two basic factors that increases food demands. The first is, obviously, the increasing world population. The second is

that as economic improvement occurs in a country, their people seek higher nutritional levels and, in particular, more milk, poultry, eggs, meats and fish. To produce those foods require more grains and demand increases.

PROJECTION OF WORLD FOOD NEEDS IS A CONTINUOUS PROCESS

Projection of world food needs is a continuous process. The method may vary, but a review of various models and assessment of their findings produces an average that is revealing.

The National Research Council of the National Academy of Sciences a year ago assembled representatives from seven universities, USDA, AID, the International Food Policy Research Institute, the International Institute for Applied Sciences, the United Nations Food and Agriculture Organizations, and the World Bank.

FINDINGS

Their findings are:

First, it will be necessary to double the present 10 million metric tons per year of food aid to meet market needs throughout the decade of the 1990's.

Second, the present accepted average food intake per day in calorie-protein ratio is too low. Projected nutritional needs could quadruple or more over present levels by the year 2000.

These conclusions are not surprising to me nor to many others. I have consulted with private voluntary organizations who are running programs in food-short countries along with agriculture representatives of those countries and also with countries that produce great amounts of food. The nutritional levels of more than a billion of the Earth's people is inadequate. That alone requires more food assistance.

TO AN EXTENT GREATER THAN ANY OTHER COUNTRY, IF UNMET FOOD DEMAND IS TO BE MET, IT FALLS UPON THE UNITED STATES

To an extent greater than any other country, if unmet food demand is to be met, it falls upon the United States. Public Law 480 should by all means become more effective and should be expanded to meet part of those additional food needs.

TO MAKE PUBLIC LAW 480 WORK BETTER REQUIRES AMENDMENTS

To make Public Law 480 work better requires amendments. The first group of amendments I recommend are to save money by cutting redtape:

One, reduce the overlapping sections to define the purpose of food aid in one clear statement that guides everyone here and operatives overseas. Reams of papers, hours of meetings can be eliminated.

Two, multiyear programs for voluntary organizations should be permitted so as to not require the annual applications and months of review every year by AID.

Three, rewrite "accountability" to mean common sense, honesty, rather than the baggage scattered through the present law that makes paper shuffling and time delays add to the costs.

SECOND GROUP OF AMENDMENTS

The second group of amendments I urge concern title I and the Department of Agriculture:

One, the Department of Agriculture should administer this part of the program without interference from other agencies.

Two, title I programs must be approved early in the calendar year.

Three, repeal the requirement for the USDA to determine the "docket" each year on what commodities are available. This docket requirement is not needed and causes extensive delays, confusion, and needless market sensitivity.

LAST RECOMMENDATION

My last recommendation is to eliminate the function of the Interagency Food Aid Subcommittee. The USDA and AID can consult with each other without continuous meetings with OMB, State, and Treasury. The concerns of this trio, the latter three I named, can be monitored, but constant meetings assure time-consuming delays that interfere with the goals of Public Law 480.

CONCLUSION

My conclusion is this, my colleagues, former colleagues: Humanitarian relief, the mutual economic development benefit both the United States and developing countries, and building U.S. trade were the goals set in the enactment of Food for Peace in 1954 and those goals are still valid today. The U.S. surplus of wheat and dairy products have declined, but a healthy American agriculture depends upon building exports and developing agricultural trade.

The findings of the Economic Research Service and the National Academy of Sciences require Public Law 480 enhancement. Food aid is a positive foreign policy that fits the world's needs in the decade of the 1990's. U.S. leadership in this endeavor is carried out through Public Law 480. The bounty and strength of American agriculture makes it possible and beneficial to increase this good program.

Thank you, Mr. Chairman.

Senator DASCHLE. Thank you, John.

We will just go down the list if that's OK.

Mr. Gollehon, let's take you next.

STATEMENT OF RON GOLLEHON, PRESIDENT, AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL, WASHINGTON, DC

Mr. GOLLEHON. Thank you, Mr. Chairman.

INTRODUCTION

My name is Ron Gollehon. I am president of ACDI, Agricultural Cooperative Development International, which is affiliated with and acts as the overseas development arm of the National Council of Farmer Cooperatives.

ACDI is a nonprofit cooperative development, technical assistance, and training organization created 25 years ago by the leading

U.S. agricultural cooperatives. Our mission is to foster economic development and trade by improving the income and well-being of farmers in developing nations through the organization and use of member-owned agricultural and credit cooperatives and institutions.

ACDI SUPPORTS THE PUBLIC LAW 480 PROGRAM

I am pleased, Mr. Chairman, to be here today to express our support for the Public Law 480 program, and to provide you with some examples of the innovative ways ACDI is programming Public Law 480 food commodities through the private sector as a tool for economic development.

Analysis indicates that development of a nation's agriculture leads to overall economic development, which results in increased demand for food and fiber. Such increased demand has translated directly into growth for U.S. agricultural exports.

The future health of U.S. agriculture depends, to a large extent, on exports, and the potential market for any substantial increase in U.S. agricultural exports is located in the countries of the developing world where population growth and need are the greatest. It is to our advantage, then, to support agricultural and economic development in developing societies overseas. Public Law 480 can and should be an important component of that development effort.

I WOULD LIKE TO TURN YOUR ATTENTION TO ACDI'S PUBLIC LAW 480 PROGRAM

With that as background, Mr. Chairman, I would like to turn your attention to ACDI's Public Law 480 program. We believe that converting Public Law 480 food to local currency, which is referred to as "monetization," and then utilizing that local currency for development purposes is a highly effective way to obtain resources for productive materials, technical assistance, training, and personnel. Local currency programs can provide motivation for needed policy reform and can serve to leverage diminishing foreign assistance dollar resources in enhancement of the impact of our foreign aid program.

In Uganda, 15 years of civil war have resulted in the deaths of over 500,000 people and the destruction of crops and the rural infrastructure.

ACDI has received U.S. Government approval to monetize 10,050 metric tons of vegetable oil in Uganda over the next 2 years under Public Law 480 title II. The local currency generated by the sale of the oil will be invested in agricultural cooperative development, mostly in credit to small farmers, for agribusiness development, inputs and supplies for crop production, and to provide the local currency to purchase foreign exchange required for the importation of badly needed inputs and supplies.

In Mozambique, another African country now beginning to restructure its economy while attempting to cope with civil war, famine, and the aftereffects of drought and cyclone, ACDI is in the process of determining the feasibility of implementing a Public Law 480 title II monetization project to organize and capitalize an indigenous private sector financial and technical assistance institu-

tion which, in turn, would invest in and support private sector agribusiness and agricultural development projects.

In accordance with U.S. objectives in Poland, ACDI has submitted a proposal to monetize sorghum, corn, and butter. Food assistance to Poland can help the newly formed non-Communist government attain stability. The proceeds from monetization will be invested in private farms and private marketing channels instead of the collectives which have been favored by the Communist regime. By using private commercial channels as a vehicle for sales, the food assistance itself helps to strengthen private market institutions and serves as the first development activity.

WE AT ACDI VIEW THE CONTINUED AVAILABILITY OF PUBLIC LAW 480 AS A MOST VALUABLE PROGRAM RESOURCE

Mr. Chairman, we at ACDI view the continued availability of Public Law 480 as a most valuable program resource. Therefore, I want to use this occasion to make some recommendations concerning the guidelines and procedures governing Public Law 480.

RECOMMENDATIONS AND GUIDELINES

First, I would like to state for the record that ACDI has received excellent cooperation from USAID-Uganda and AID Washington Africa Bureau and the Office for Food for Peace.

We would recommend that the guidelines for title II development grant proposals be clarified, that proposals be processed earlier, that funds be made available at the beginning of the fiscal year, and that adequate funding be maintained for this program.

In order to better respond to programming opportunities and collaboration with USAID missions overseas, we require relatively small amounts of hard currency in the form of grants to finance the quality technicians who can ensure the sustainability that a long-term, well-planned, and executed project commitment can bring about.

We are required to sign agreements with host governments and counterparts, allowing for the duty-free entry of food commodities and the creating and staffing of long-term offices to administer projects. Despite those long-term commitments, we are still required to seek annual approval from the U.S. Government interagency committee responsible for Public Law 480, the Development Coordination Committee, DCC. Our inability to guarantee the total delivery of the commodity as per the operational plan causes us to lose valuable amounts of time, creates doubt in the minds of the host country partners from whom we require collaboration, and makes it extremely difficult to perform budget and personnel planning.

In short, we greatly need a longer-term U.S. commitment to the program and we need assurances that commodities called for by, and approved in the multiyear operational plan, will be made available to us over the life of the project.

Although the law currently encourages multiyear title II program planning, in practice this needs significant improvement.

We also question the need for all of the members of the DCC to review title II program proposals, multiyear operational plans, and

annual updates of those plans, which I think some of the other members of the committee or panel are questioning.

I would further recommend that a commission be formed, to consist of AID/Washington Food for Peace, USDA, and selected members of the PVO community within 6 months after the enactment of Public Law 480 reauthorization legislation. That commission should be mandated to revise the guidelines and regulations governing Public Law 480 proposals, multiyear operational plans, and handling, reporting, and distribution procedures, with an aim to clarification and streamlining. The commission should have as members persons experienced in the actual handling, program development, and sale of Public Law 480 commodities overseas.

Lastly, ACDI clearly supports the language in the current law providing for Public Law 480 minimum and subminimum tonnage levels, requiring that food be provided through PVO's, cooperatives, and the World Food Program, and the provisions for monetization.

Senator DASCHLE. If you could summarize, Mr. Gollehon.

Mr. GOLLEHON. Thank you, Mr. Chairman. This is the last paragraph.

Senator DASCHLE. Great.

Mr. GOLLEHON. ACDI is working in food-deficit countries in which the United States has strong interest to assist in restructuring and privatizing the economy and improving the living standards of the masses; countries with the potential to solve their food needs over time, and create the economic conditions enabling them to be full players in the world economy. As we develop more programs designed to meet the food needs of a hungry and growing world population, we see Public Law 480 as one of the most effective tools at our disposal—a tool that can help alleviate hunger, be converted to other resources that can be brought to bear on improving the incomes and standard of living of the more needy, and, importantly, provide a market for U.S. agricultural exports.

On behalf of ACDI and the National Council of Farmer Cooperatives, I look forward to working with you and the committee in support of this program. We appreciate the good working relationship we have had with your staff in the past. And we trust that will continue.

This concludes my remarks, and the full prepared text has been submitted for the record. Thank you, sir.

Senator DASCHLE. Thank you very much for an excellent statement.

[The prepared statement of Mr. Gollehon follows:]

STATEMENT OF RON GOLLEHON, PRESIDENT
AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL
BEFORE THE U.S. SENATE COMMITTEE ON AGRICULTURE,
NUTRITION AND FORESTRY
NOVEMBER 7, 1989

Mr. Chairman, my name is Ron Gollehon. I am president of ACDI, Agricultural Cooperative Development International, which is affiliated with and acts as the overseas development arm of the National Council of Farmer Cooperatives.

ACDI is a non-profit cooperative development, technical assistance, and training organization created twenty-five years ago by the leading U.S. agricultural cooperatives. Our mission is to foster economic development and trade by improving the income and well-being of farmers in developing nations through the organization and use of member-owned agricultural and credit cooperatives and institutions.

ACDI is currently implementing agricultural, agribusiness, and micro-enterprise development, credit, and training projects in ten countries in Asia, Africa, and Latin America.

I am pleased, Mr. Chairman, to be here today to express our support for the P.L. 480 program, and to provide you with some examples of the innovative ways ACDI is programming P.L. 480 food commodities through the private sector as a tool for economic development.

Over the years, some have criticized P.L. 480 on the grounds that it encouraged the expansion of foreign agricultural production which then competed with U.S. agriculture. The facts, however, are otherwise. They indicate that development of agriculture leads directly to overall economic development, which results in increased demand for food and fiber. Such increased demand has translated directly into growth for U.S. agricultural exports.

The future health of U.S. agriculture depends, to a large extent, on exports. The potential market for any substantial increase in U.S. agricultural exports is located in the countries of the developing world. This is where population growth and need are the greatest. However, economic growth and development in those countries are required in order to create the conditions necessary to finance the purchase of U.S. exports. It is to our advantage, then, to support agricultural and economic development in developing societies overseas. P.L. 480 can and should be an important component of that development effort.

In summary, Mr. Chairman, it is our belief that U.S. agricultural productive capacity is a tremendous but insufficiently utilized resource in economic development programs which could, over time, enhance U.S. trade if utilized more efficiently and in larger quantities.

With that as background, Mr. Chairman, I would like to turn your attention to ACDI's P.L. 480 program, which focuses on the marketing of P.L. 480 commodities through the private cooperative sector, and the monetization of those commodities for local currency which is used to support and invest in agribusiness and agricultural development projects. We strongly support the use of food for humanitarian purposes and as part of planned development activities. At the same time, we believe that converting P.L. 480 food to local currency, which is referred to as "monetization," and then utilizing that local currency for development purposes is a highly effective way to obtain resources for materials, technical assistance, and personnel. Local currency programs can provide motivation for needed policy reform, at the same time providing nutritional food commodities otherwise unavailable or too costly for the people in many third-world societies. Monetization also serves to leverage diminishing foreign assistance dollar resources in enhancement of the impact of our foreign aid program.

In Uganda, fifteen years of civil war have resulted in the deaths of over five hundred thousand people, and the destruction of crops and the rural infrastructure. Despite that upheaval, the Ugandan cooperative movement has survived. It possesses a rural-based infrastructure, and an input distribution system more extensive and efficient than that of the non-cooperative private sector. Moreover, since an estimated seventy per cent of all Ugandan farmers are members of agricultural cooperatives, the cooperative sector is the most efficient vehicle to reach large segments of the population.

ACDI has received U.S. government approval to monetize 10,050 metric tons (approximately twenty-three million pounds) of vegetable oil in Uganda over the next two years under P.L. 480 Title II. The local currency generated by the sale of the oil will be invested in the agricultural cooperative movement, mostly in credit to small farmers for agribusiness development, inputs and supplies for crop production, the marketing of non-traditional crops, and to provide the local currency to purchase the foreign exchange required for the importation of badly needed inputs and supplies.

In Mozambique, another African country now beginning to restructure its economy while attempting to cope with civil war, famine, and the aftereffects of drought and cyclone, ACDI is in the process of determining the feasibility of implementing a P.L. 480 Title II monetization project to organize and capitalize an indigenous private-sector financial and technical assistance institution which, in turn, would invest in and support private-sector agribusiness and agricultural development projects.

In accordance with U.S. objectives in Poland, ACDI has submitted a proposal to monetize sorghum, corn, and butter there. Food assistance to Poland can help the newly-formed non-Communist government attain stability. The proceeds from monetization will be invested in private farms instead of the collectives which have been favored by the Communist regime. By using private commercial channels as the vehicle for sales, the food assistance itself helps to strengthen private market institutions. Moreover, local currency derived from the sale of the commodity will be designated for support of agricultural development projects which increase the productivity of individual farms and private marketing channels, both domestic and international.

The foregoing is intended to briefly sum up our P.L. 480 activities. We are currently researching the feasibility of other projects in other countries, such as Afghanistan and Sri Lanka, and hope to be able to report on them at a later date.

Mr. Chairman, we at ACDI view the continued availability of P.L. 480 as a most valuable program resource. Therefore, I want to use this occasion to make some recommendations concerning the guidelines and procedures governing P.L. 480 programming which should, we feel, be reviewed with an aim to increased efficiency in both the design of P.L. 480 projects, the approval process, and the methods in which the food is handled and controlled overseas.

First, I wish to state for the record that ACDI has received excellent cooperation from USAID/Uganda, and the A.I.D. Washington Africa Bureau and Office of Food for Peace. ACDI received significant encouragement from A.I.D. in developing our Uganda monetization project, and we worked closely with the USAID/Uganda mission in preparing the multi-year operational plan.

We would recommend that the guidelines for Title II Development Grant proposals be clarified, that proposals be processed earlier, that funds be made available at the beginning of the fiscal year, and that adequate funding be maintained for this program.

All our P.L. 480 projects are the result of collaboration between ACDI and local USAID missions. We clearly are interested in implementing projects that conform with the strategy of the U.S. government. However, in order to respond to those

programming opportunities, we require relatively small amounts of hard currency in the form of grants to finance the quality technicians that can make the difference between one-shot injections of foreign aid and the sustainability that a long-term, well-planned, and executed project commitment can bring about.

In Uganda, based on A.I.D. approval of the multi-year operational plan, we signed agreements with the government of Uganda and our Ugandan counterparts allowing for the duty-free entry of the oil and the creating and staffing of a long-term office to administer the project. Despite those long-term commitments, we are still required to seek annual approval from the U.S. government interagency committee responsible for P.L. 480 (the Development Coordination Committee/DCC). Our inability to guarantee the total delivery of the commodity as per the operational plan causes us to lose valuable amounts of time, creates doubt in the minds of the host country partners from whom we require collaboration, and makes it extremely difficult to perform budget and personnel planning.

In short, we require a longer-term commitment to the program, and we need assurances that the commodity called for by and approved in the multi-year operational plan will be made available to us over the life of the project. Although the law currently encourages multi-year Title II program planning, in practice this needs significant improvement.

We also question the need for all of the members of the DCC to review Title II program proposals, multi-year operational plans, and annual updates of those plans.

I would further recommend that a commission be formed to consist of A.I.D./Washington Food for Peace, USDA, and selected members of the PVO community within six months after enactment of P.L. 480 reauthorization legislation. That commission should be mandated to revise the guidelines and regulations governing P.L. 480 proposals, multi-year operational plans, and handling, reporting, and distribution procedures with an aim to their clarification and streamlining. The commission should have as members persons experienced in the actual handling, program development, and sale of P.L. 480 commodities overseas.

Lastly, ACDI clearly supports the language in current law providing for Title II minimum and sub-minimum tonnage levels, requiring that food be provided through PVO's, cooperatives, and the World Food Program, and the provisions for monetization.

Mr. Chairman, as you will note, ACDI is working in food-deficit countries in which the U.S. has strong interest to assist in restructuring and privatizing the economy and improving the living standards of the masses; countries with the potential to solve their food needs and create the economic conditions enabling them to be full players in the world economy. As we develop more programs designed to meet the food needs of a hungry and growing world population, we see P.L. 480 as one of the more effective tools at our disposal—a tool that can help alleviate hunger, be converted to other resources that can be brought to bear on improving the incomes and the standard of living of the more needy, and, importantly, provide a market for U.S. agricultural exports.

On behalf of ACDI and the National Council of Farmer Cooperatives, I look forward to working with you and the Committee in support of this program.

This concludes my remarks and I will be pleased to respond to any questions.

Senator DASCHLE. Mr. Donnelly of the Catholic Relief Service.

STATEMENT OF JOHN A. DONNELLY, SENIOR DIRECTOR, OFFICE OF PROJECT RESOURCE MANAGEMENT, CATHOLIC RELIEF SERVICES, BALTIMORE, MD

INTRODUCTION

Mr. DONNELLY. Mr. Chairman, on behalf of the Catholic Relief Services (CRS), I would like to thank you for inviting us to present our views on international food assistance programs as the Senate considers the 1990 farm bill.

I have submitted a prepared statement, and I would like simply at this time to summarize that statement.

RESOURCES AVAILABLE INADEQUATE

The Inspector General of AID has been quoted as saying that the level of financial resources available to PVO's for managing title II food programs is inadequate. Catholic Relief Services would strongly endorse that statement.

THE WAYS IN WHICH PVO'S ARE FORCED TO MANAGE THE RESOURCES THAT WE DO HAVE NEEDS TO BE SERIOUSLY RECONSIDERED

We would go further and we would say that the ways in which PVO's are forced to manage the resources that we do have needs to be seriously reconsidered.

Consider, if you will, that present U.S. regulations demand that PVO's acquire signatures of all beneficiaries as evidence that we have effectively distributed food. But what are we to do hundreds of miles from the sea and thousands of miles from U.S. sources and facing uncontrollable factors such as port operations, weather, and transport that have eaten into the shipments that we are presently being asked to sign for? The answer is simply that we do the best we can.

Our willingness to accept the risk for the sake of the poor is central to the spirit of Catholic Relief Services. The unacceptable alternative to this scenario is to conduct safer programs. Lamentably, these are distant from the poorest of the poor we seek to serve.

STATE OF AFFAIRS IS UNFORTUNATE

This state of affairs is unfortunate for several reasons:

One, food aid works and should not only be continued but expanded. Over the years the food assistance programs of the U.S. Government, particularly Public Law 480 title II, have helped to save and sustain the lives of millions of people around the globe. Problems do exist, but the fact remains that year in and year out, through natural and man-made disasters, in circumstances nearly unimaginable in this country, CRS puts the vast majority of one-half million tons of food entrusted to it into the hands of those most in need.

Two, the need remains. Hundreds of millions of people are undernourished and malnourished. Perhaps 800 million people live in absolute poverty.

Three, the programs can be improved without sacrificing accountability. CRS holds no brief for relaxed standards of accountability. What we do believe is necessary are standards which are appropriate to the diversity of food program objectives and most especially to those when development is the goal. As time has passed, the definition of what we are engaged in has evolved.

SEVERAL FOOD PROGRAMS BEING CONDUCTED SIMULTANEOUSLY

There are, in reality, several food programs being conducted simultaneously. There are food programs of trade development. There is the humanitarian food program. There is the developmental food program, which experience has taught is far and away the most difficult but most essential to helping those in need deal with their own problems. And beyond these are the emergency programs designed to meet crises such as we have seen in Ethiopia and Sudan.

And, Mr. Chairman, I would simply say at this time that Ethiopia is once again approaching desperate trouble.

These programs are not mutually exclusive, but they are different and call for different ways to run them and to measure their effectiveness and validity.

WHAT WE SEEK HERE TODAY

What we seek here today is the following:

Recognition by the legislative branch that food programs have evolved in several productive directions not envisioned specifically in administrative regulations.

We seek: a sense-of-Congress pronouncement which would set a constructive and more realistic tone to the conduct of programs, including new regulatory language; two, agreement that developmental uses of food aid are extremely complex and costly and require more latitude and flexibility; three, and finally, we believe that the needs of both efficiency and accountability will be enhanced by new realism in funding food aid programs.

For 35 years CRS and similar agencies have met the needs of food-related, developmental, and humanitarian programs. But the time has come for new approaches to staff, training, and the development of administrative procedures which assure, among other things, greater accountability and more safeguard against slippage.

We should emphasize, as we have in the past, that multiyear programming of commodities is desirable.

CONCLUSION

I think it is fair to say that Catholic Relief Services is not just a contractor being used to help the Government carry out a policy, but a full collaborator in that effort. As the overseas relief and developmental agency of 53 million American Catholics, CRS is an important segment of this expression of historic national will to use American food in relieving and preventing hunger. It is a moving force in a larger, coordinated strategy to attack poverty itself. We believe at this moment there is an unusually large constituency for the kind of conceptual and procedural adjustment

which many Members of Congress have indicated are needed for Public Law 480 to better serve its humanitarian goals.

Thank you, Mr. Chairman.

Senator DASCHLE. Thank you, Mr. Donnelly.

[The prepared statement of Mr. Donnelly follows:]

STATEMENT BY

JOHN DONNELLY

SENIOR DIRECTOR, OFFICE OF PROJECT RESOURCE MANAGEMENT

CATHOLIC RELIEF SERVICES

BEFORE

SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

NOVEMBER 7, 1989

Mr. Chairman, distinguished members of the Committee, thank you for inviting Catholic Relief Services to present its views on international food assistance programs as the Senate considers the 1990 Farm Bill and reform of the Public Law 480 Food for Peace program.

Food for peace has been one of the cornerstones of U.S. policy toward the developing world for 35 years.

It has endured because it has worked. Indeed, we believe that any assessment of its success would lead to very favorable comparisons with the success of military assistance programs.

Over the years, the food assistance programs of the U.S. government, particularly PL 480 Title II, have helped to save and sustain the lives of millions of people around the globe. While our testimony today calls attention to ways in which these programs can be improved, we must never forget that 300 million tons and 35 billion dollars of American food aid have been delivered to people the world over. Problems abound but the fact remains that, year in and year out, through natural and man-made disasters, in circumstances nearly unimaginable in this country, CRS puts well over 95 percent of the food entrusted to it into needy hands.

But the need persists. In the world today, as for some years past, there are still hundreds of millions who are undernourished or

malnourished -- that is, they lack the basic nutrients to lead fully active and productive lives.

Pervasive, chronic hunger is the symptom of an even greater problem, which is that at least 800 million people live in absolute poverty, "beneath any rational definition of human decency."

Both phenomena exist in one degree or another in every society, but they are the norm in most of the Third World. Unless the poor and hungry are afflicted by famine and drought or driven to violence, however, their condition is little noticed in the routine conduct of international affairs.

As you know, Mr. Chairman, Catholic Relief Services has been involved with PL 480 from the beginning. We were active in supporting the legislation in 1954, and in subsequent years have been the largest private agency using Title II commodities.

In that support as in carrying out the program, I think it is fair to say that Catholic Relief Services is not just a contractor being used to help the government carry out policy but a full collaborator in the effort. As the overseas relief and development agency of 53 million American Catholics, CRS represents an important segment of this expression of historical national will to use American food in relieving and preventing hunger. It is a moving force in a larger, coordinated strategy to attack poverty

itself.

We believe there is, at this moment, an unusually large constituency for the kind of conceptual and procedural adjustment which many members of Congress have indicated are needed for PL 480 to better serve its humanitarian goals.

Catholic Relief Services is one of the limited number of American private agencies which have continued efforts to make more effective use of food aid. We wish there were more such agencies. In the course of our experience with food assistance programs, most of us involved have come to see food as a resource which can and ought to be used in a variety of ways that not only help to feed the hungry but also to promote the longer term development of the world's poor, to enable them to better provide for their own needs. As time has passed, the definition of what we are engaged in has evolved.

There are in reality several food programs being conducted simultaneously. There are food programs to stimulate trade development, as envisioned in the title of the Agricultural Trade and Development and Assistance Act of 1954, the original legislation. In Title II, there is a humanitarian food program, clearly implicit in the name "food for peace" and, increasingly in recent years, and there is a developmental food program, which experience has taught is far and away the most difficult to

administer, but essential to helping those in need deal with their own problems.

Beyond these, there are emergency programs designed to meet the crises that we have seen in Ethiopia and Sudan in recent years. These food programs are not mutually exclusive, but they are different and call for different ways to run them. All are legitimate expressions of the will of the people of the United States and of the determination of many in the Congress, by their words and votes. Each is a legitimate program within the mandate of one or more of the private organizations which serve as the delivery systems for Title II food.

As these programs have evolved in ways not entirely foreseen in original legislation, there has not been a commensurate evolution in the body of regulatory practice which has grown up around them. There has not been a codification either in the law or in how one measured success in pursuit of these American goals.

The act calls for work with indigenous groups abroad, by definition not American, and to help them become stronger and more independent, able to stand on their own. They don't have U.S. standards, goals and administrative procedures though, in many cases, they have developed procedures well adapted to local circumstances. We see this as consistent with Congressional intention. Some, of course, are underdeveloped by any standards,

even their own.

What they do share with us is a dedication to serve the poor and needy. Our history of collaborating with some of the best of our foreign counterparts dates back a quarter of a century. What they have which we don't are people and locally generated resources and warehouses and, in general, a delivery system which represents millions of dollars in investment the U.S. does not have to make. Our annual report cites $288 million in sources of CRS support. This figure does not include an estimated $70 million in cash, commodities and services donated by the countries in which CRS operates. This item is not audited and does not appear in the CRS financial statement, but is crucial to our success overseas. The half million dollars a year which CRS puts into its New Jersey shipping operations office does not come from the U.S. government, though it is essential to meeting U.S. government standards, as well as our own.

These matching contributions are usually undervalued or ignored when programs are evaluated by too-narrow criteria. Congress wisely recognized that when requiring that 1.4 million tons of food-stuffs be moved through volunteer agencies and/or the World Food Programs. Unfortunately, only the most limited funding of VOLAG activities is appropriated for this effort.

You cannot measure trade development in the short run, not easily

anyway. You can't measure social and economic and human resource development in the short run, certainly not in qualitative terms. So you measure what you can: does the food arrive in time and in good condition and, other things working right, how many people get some of it.

Ours is a risky business, made more so by the multiplicity of objectives and obstacles. The goals of food programs are not the same everywhere. Geography and climate and local counterpart agencies aren't the same everywhere and the definitions of success are not the same everywhere. CRS, and organizations performing similar service, are at constant risk of being judged unsuccessful, or even of having failed, by auditors and inspectors who judge performance in pursuit of rigid criterium which are simply unobtainable in parts of the Third World.

A willingness to accept risk for the sake of the poor is central to the spirit of CRS. We are willing to assume those risks, because the safe programs aren't where the poor are. We do reserve the right to question standards applied to American private voluntary agencies which are not applied equally to foreign governments, indigenous private organizations, and multilateral institutions such as the World Food Program.

Our experience has been that where there is a political imperative to carry out a food program, problems of administration and

definitions of success usually can be worked out. Getting food to Southern Sudan comes to mind, entering the port of Mombassa and going by truck through Kenya into the Sudan, where a war was going on. There was acceptance, with AID's concurrence, that losses of food were inevitable because of the difficulty of the circumstances. A low but reasonable level of loss was considered acceptable and, within those tolerances, the USG political agenda was met and CRS had one of its finest hours of humanitarian assistance to meet overwhelming need.

Where there isn't a political priority to get food into an equally needy area -- say, remote reaches of India -- problems of administration and definitions of success revert to the criteria which obtain everywhere: did all the food arrive, civil strife, geography, monsoons or the accumulated consequences of underdevelopment and geography notwithstanding?

Performance standards need to consider circumstances in which the food delivery system operates. Politics and climate, demography and market conditions and a host of other external factors often exercise an influence on our efforts that is beyond our power to control or direct.

The labor intensive delivery systems employed in the Third World from the port of entry to the final distribution point realizes losses but these losses may not be immediately calculable and are

always difficult to fully document.

Or it could be monsoon rains, which damage tons of food before delivery whenever they have the bad luck to reach, for example, the Bay of Bengal from June through October.

Or it could be antique railway coaches carrying food upcountry, leaking rain through the roof and poking holes in your bags with nail-studded floors and walls.

It could be government transportation systems, whose officials will no more accept claims for damage, loss or shortfall than they will open their books for foreigners to audit.

U.S. regulations demand signatures. It can be, "no signatures, no food." What do you do, hundreds of miles from port and thousands of miles from the U.S. source, when you know ports and weather and transport have eaten into the shipment you're being asked to sign for? And the railroad clerk asking you to sign won't accept your claim for losses? The answer is, usually, to do the best you can with what you have. The alternative is "safer" programs, lamentably distant from the poorest of the poor we seek to serve.

This is far from saying CRS condones waste. The need for a recommitment to ethical behavior and accountability in government is heard everywhere today. The American people have a right to

accountability when they pay the bills; the government has a responsibility to demand it and the beneficiaries and users of government goods and services should be able to reasonably expect that high standards will be set and met.

We have our own internal controls which are rigid indeed and we have worked closely with the USG throughout the history of food programs to assure not only compliance but also prosecution on those unusual occasions where there actually was fraud on the part of foreign counterpart agencies. There is an instance currently under investigation in India right now. We are cooperating actively in that investigation as seen by the presence of our Executive Director and his deputy, and myself in Bombay last month.

We will not back away from doing the right thing if action is justified. I might observe that a few years ago CRS refused to continue with a maternal and child health program because the government declined to let us visit or supervise it which we would have had to do in order to account for donor resources.

Furthermore, we are well aware that too-flexible standards and situational ethics can invite abuse. CRS holds no brief for relaxed standards of accountability. What we do believe is necessary are standards which are appropriate to the diversity of food program objectives, most especially to those which obtain when development is the goal.

Let me give an example of how adaptability to local circumstances can work. There was a time in Indonesia where food for work placed commodities in the hands of participants based on number of days worked. This was a standard measure -- still is in many places. Often the work was in road maintenance or another enterprise where success was hard to measure. Working with AID, we did two things: we changed from giving food for days worked to giving food for productivity, no matter how long or short a time a job took. Then we got a supplementary grant from AID to help increase the villagers' capability to perform more quantifiable, productive labor. We helped set up a national network as means of tying food for work projects into governmental development plans. It is harder and, initially, more expensive to administer this way but it also works better -- a lot better if development is your goal rather than simply quantifying the amount of food distributed. Indonesians with whom we were working needed the food in either case.

One example of failure to deal with local circumstances came in Lebanon, where we simply had to stop distributing food because we felt we couldn't meet accountability standards in a relief program conducted under wartime conditions.

In El Salvador we had to decline the opportunity to distribute U.S. food to some displaced persons because the U.S. required them to

identify themselves by name as recipients. These records would have been available to the government and military, which could use this source to find people they seek for political purposes or to resettle such people elsewhere. We now distribute food from the EEC to those people, food which doesn't carry that need to identify specific recipients.

What we seek here today is the following:

1. Recognition by the legislative branch that food programs have evolved in several productive directions neither envisioned specifically in foreign assistance legislation nor accommodated adequately in administrative regulations.

   Such recognition should be incorporated in new legislative approaches to both food and other types of aid which are being contemplated. Pending that legislation, we seek a sense of Congress pronouncement which could set a constructive and more realistic tone for the conduct of food programs. We are working closely with AID on that already but seek your endorsement for constructive work in the direction. We will shortly share with AID - and with you - the detailed results of a study we commissioned of how PL480, Title II regulations can be improved with no deterioration of standards of accountability.

2. Agreement that developmental uses of food aid are extremely complex and require more latitude than we have now in incorporating local circumstances into the measurement of success. A major portion of a CRS country representative's time is spent on dealing with just such problems.

We are, for example, on the verge of embarking upon a new food program in Angola, a program in which a broad range of foreign policy concerns of the U.S. government might be met and in which CRS' humanitarian mandate would be served as well. Programing under the far-less-than-ideal circumstances there should not be constrained by too narrow approaches to what constitutes success.

3. And finally, we believe that the needs of both efficiency and accountability will be enhanced by new approaches to funding these programs. AID's Inspector General recently was quoted as seeing the level of resources available to manage food aid as inadequate to the task. We agree. The need for food aid is greater today than 20 years ago, in part because there are more poor people and in part because of the evolution toward development-related food programs. I should note the potential risk that this evolution may exclude the chronic poor. We should not permit this to occur.

CRS and similar agencies can't meet these needs adequately in

terms of staff, training and the development of administrative procedures which assure, among other things, greater accountability and more safeguards against slippage. The kinds of cash inputs which made the Indonesian program I mentioned so much more efficient could not only help replicate that success elsewhere but also would produce better administered programs. We have testified before in favor or monetization as a temporary expediency to help meet this need. The long term solution is to have sufficient appropriated funds to support the administrative costs of programs and the associated interventions which increase the developmental records of food programs.

In this regard, we would emphasize, as we have in the past, that multi-year programming, if it is to be effective, needs careful research and planning as well as effective management and accountability standards. CRS's position is that such programs would be more flexible, efficient and effective than short-term efforts which tend to be piece-meal and may not be able to consistently address root causes of hunger and poverty. There is a place for long-term and short-term programs. The difficulty from our perspective is that we are not yet able to operate proper long-term efforts and an ability to use multi-year commitments would allow us to do so.

With an assured supply of food over a predetermined time frame -- from two to five years -- food aid can be used as part of

a comprehensive program designed to achieve both short-term and long-term objectives much more effectively than the current year-to-year programs.

Senator DASCHLE. Ms. Sheehan.

STATEMENT OF PEGGY A. SHEEHAN, COCHAIRMAN, COALITION FOR FOOD AID POLICY AND VICE PRESIDENT, NATIONAL CO-OPERATIVE BUSINESS ASSOCIATION, WASHINGTON, DC

Ms. SHEEHAN. Yes, Mr. Chairman. I will attempt to go through my testimony very quickly because I am representing the Coalition on Food Aid and two of my members have just spoken to you.

INTRODUCTION

The Coalition for Food Aid was formed in 1985 in an attempt to expand the developmental impact of food aid. Two of the members are represented here today, Catholic Relief Services and ACDI. Other members include: CARE, World Vision, and other PVO's and cooperatives.

PUBLIC LAW 480 AN EFFECTIVE PROGRAM

We believe that the Public Law 480 program has stood the test of time. It has been an effective program in meeting the needs of the hungry around the world.

Again in an attempt to summarize, the Coalition has met and we have come up with our position on Public Law 480. Senator Leahy asked the witnesses to get to the point and summarize our recommendations.

IN 1985 WE HAD THREE RECOMMENDATIONS

In 1985 we had three recommendations. We talked about the monetization of food aid. That was mandated by law, and it is working effectively now.

We talked about multiyear commitments on food aid. That also was mandated by law, but as you heard, and I can attest to as well, we are still having trouble with the multiyear commitments being true commitments. They are being made in the context of a 3-year program approval but re-reviewed every year. This is causing a lot of problems for the private voluntary agencies and it also takes a tremendous amount of time to re-review these programs every year. The development coordination committee meets weekly. They spend all of their time reviewing programs.

WE HAVE SEVERAL NEW ITEMS FOR OUR AGENDA FOR THIS COMING FARM BILL THAT WE WOULD LIKE TO BRING TO YOUR ATTENTION

We have several new items for our agenda for this coming farm bill that we would like to bring to your attention. The first issue is that of commodity supply and availability. We would propose, as a coalition, that the docket be done away with. This is a procedure that is used by USDA to determine the amount of commodities that are made available to title II. I am speaking exclusively of the title II grant program.

The management of the program has certain problems. Part of it, as John Donnelly has just indicated, is that the costs of the program have become so high. We have asked PVO's such as Catholic Relief Services and CARE and others, "why aren't you doing more

in Africa?", "why are more agencies not participating in smaller countries in Africa?" The answer is it is too costly.

How do we help offset some of these costs? The Coalition on Food Aid proposes that a certain amount, approximately $15 million of Public Law 480 be set aside for the management of the program.

Also, the staffing on the U.S. Government side is woefully small. I do have some expertise in the program. I spent 17 years in AID, Food for Peace, and when I was there, there were about four times as many people in Food for Peace as there are right now.

Also, the overseas staff for Food for Peace officer has dwindled down, as they say, to a precious few. It's very, very difficult for PVO's and cooperatives to seek guidance at the field level if there are no qualified field officers. I know that AID is working on this problem and is well aware of it.

Another problem that we have heard about is the Development Coordination Committee. Again the Coalition believes that too much time is spent on the review process. There are also agencies that are involved in the process that need not be involved in the process. By delegation of authority, AID is supposed to be administering the title II program, USDA is supposed to be handling commodity matters.

The Coalition recommends that the other organizations—State, OMB, and Treasury—be involved in a once-a-year review process and not be involved in weekly meetings. And again, when I was in Food for Peace, we did not have weekly meetings on the title II program.

As Mr. Donnelly pointed out, the audits and the regulations are getting to the point where people don't know where they stand. The cost of auditing has become exceedingly high.

Again, the Coalition would like to recommend that a working group or a committee sit down with not only the PVO's and AID representatives but also the Inspector General and set out guidelines for what is expected in an audit.

Right now the feeling is among the PVO and cooperative community that we don't know by which standards we are being judged.

TITLE I PROGRAM SHOULD BE APPROVED EARLIER IN THE YEAR

On the title I side, the only thing I would like to say is that we feel that the title I program should be approved earlier in the year. There should be amendments to section 108. But the overall goals of Public Law 480 seem to have worked throughout the years. We are hoping that the program will continue, but these management issues will be addressed. And we will be glad to work with the committee along those lines.

Thank you, Mr. Chairman.

Senator DASCHLE. Thank you, Ms. Sheehan.

[The prepared statement of Ms. Sheehan follows:]

TESTIMONY OF PEGGY A. SHEEHAN

CO-CHAIRMAN, COALITION FOR FOOD AID POLICY

AND

VICE PRESIDENT, NATIONAL COOPERATIVE BUSINESS ASSOCIATION

before the

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

U. S. SENATE

November 7, 1989

Mr. Chairman, Members of the Committee, I am pleased to be here today, representing the Coalition for Food Aid and the National Cooperative Business Association, to testify about our nation's international food assistance programs, which are so important to U.S. Agriculture and to the people in the less developed nations.

The Coalition for Food Aid was formed in 1985 to expand the use of food aid as a development resource. The Coalition consists of cooperative organizations such as the National Cooperative Business Association, Land O'Lakes, and Agricultural Cooperative Development International, and private voluntary organizations (PVO's) such as CARE, Catholic Relief Services, World Vision Relief and Development, the Adventist Development and Relief Agency International, AfRICARE,° Council for International Development, Save the Children, Planning Assistance and WORLD SHARE. Coalition members operate food aid programs in over 40 countries in the developing world, pursuant to PL 480 and Section 416.

The Coalition has worked very closely with its own members as well as the agribusiness and transport industry to expand both the volume and uses of food aid in the developing world. Food aid programs benefit both the recipients in the developing world and the U.S. economy. Food aid programs benefit farmers, processors, warehousers, retailers, railroads, port authorities, and the U.S. shipping industry.

Developing countries have replaced industrialized nations as our fastest growing markets. The population of less developed countries is expected to increase by 1.2 billion over the next 15 years. The demand for U.S. exports is in the developing world. The key to fulfilling the unmet demands in the developing world is to stimulate economic growth. Food aid and export assistance programs can and should be used to stimulate growth and expand markets -- as incomes improve, diets improve, and the demand for and the ability to purchase food increases.

As a backdrop to any discussion of PL 480, it is only appropriate to recall why this progam was established in the first place and to consider if it is still needed. By enacting the Agricultural Trade Development and Assistance Act in 1954, our nation told he world community that well-off countries with abundant food resources should help the less fortunate meet their needs. More importantly, this assistance would not be left to vagaries of annual reassessment of policy; it would be a commitment by the United States year-in and year-out to do its part in alleviating world hunger.

Have the premises and goals of PL 480 withstood the test of time? The answer, Mr. Chairman, is a resounding "yes". The

goals set in the statute are purposefully broad, and it is this breadth that has allowed the program to adapt over the years. We still need it -- as a cohesive program with both concessional loan and donation elements. More importantly, the recipient countries need it.

Is food aid being used to its fullest potential? The answer is NO! The Farm Bill of 1985 provided both additional quantities of food aid as well as the authority to use food aid more effectively. The authority is there; how do we use it more effectively?

Mr. Chairman, my comments reflect the views of the members of the Coalition for Food Aid, which I'm happy to say, represents nearly all of the private voluntary agencies and cooperatives utilizing PL 480 Title II food aid. I wish to emphasize "utilizing." Coalition members are the doers, the implementors of Title II, the front line of food aid in more than 40 countries. This is the only criteria for membership -- managing PL 480 Title II programs. The Coalition addresses the real, day-by-day problems of administering PL 480 Title II often under difficult circumstances in poor nations while looking toward new, and better ways of utilizing food aid. The PL 480 program, while 35 years old has never been static. PL 480 has responded to the world's changing needs - the needs of the world hungry, and poor. It has provided opportunities for those trying to help themselves gain a higher standard of living. It has provided U.S.-grown food to the developing world's rural marketplaces and cities.

I feel that I can speak to the ever changing, ever demanding needs and requirements of PL 480 not only because I represent the Coalition of Food Aid, and the National Cooperative Business Association, but because I speak from 17 years in A.I.D./Food for Peace; 6 months on the Select Committee on Hunger and now almost 5 years at a PVO/cooperative - that's 22 1/2 years of the 35 years of Food for Peace. In addition, I had the honor to work for the people who helped create the program, from both the administration, the Private Sector, and the Congress.

I mention my background only to illustrate my special interest in PL 480 since it's been my career. I'm happy to hear such in-depth discussion of revisions and improvements, but I'm also concerned that too much re-vamping for the sake of re-vamping might "throw the baby out with the bathwater." Let's not throw the baby out. PL 480 has worked and continues to work. PVOs and coops have committed to carrying out Title II programs, but need additional government help and funds to tackle the lack of infrastructure and unstable conditions in African nations; or to extend their programs in Asia. Striking a more practical balance between accountability and progam

achievements is most important, or else it will be too costly for PVOs and coops to carry out the pograms. Also, these organizations should have multi-year programs so that their captal and human contributions have a chance to pay-off.

It is time for change. The world's problems are changing and PL 480 is a program that addresses the most basic human need e.g. food.

Thanks to the Congress, the Food Security Act of 1985 assured the PVO's of a minimum quantity of food aid, mandated monetization (sale for local currency) of a small portion of the donated food aid and provided for multiyear commitments.

I'm happy to say that the minimum tonnage of 1.9 million metric tons has been effectively utilized to meet emergency and non-emergency needs of many hungry and malnourished people in the poorest food deficit countries. There have occasionally been problems reaching the 1.425 million sub-minimum. I believe that if the program were streamlined and less complex more agencies would submit proposals which would far exceed the mandated levels.

It took some time to implement the Congressional mandate on monetization due to diverging legal interpretations. After many months of confusing signals to field missions on what could be or could not be done, A.I.D. invited the PVO community to assist in the drafting of a field manual on monetization. The success of this exercise in cooperation clearly demonstrates the willingness of all parties to work together.

Less successful has been the implementation of the multiyear approval process. Private voluntary agencies (PVO) and cooperatives are required to submit multi-year plans but these plans are subjected to annual re-review and rewrites. This defeats the whole purpose of the multi-year plan. Granted annual adjustments may and sometimes should be made by the PVO, but the implementation oversight of the program is part of A.I.D.'s responsibility and should not be "up for grabs" before the DCC (Development Coordination Committee) year after year. Development assistance projects are approved on a multiyear basis. The World Food Program projects are also multiyear commitments. Why is micro-management by five (5) U.S. government agencies needed for PVO programs? PVOs provide annual progress reports. This should be adequate. If the multiyear approval process worked, the result would be that the very limited staff of both the U.S. government and the PVO's could be spent on improving the quality of the on-going programs, as well as developing new and creative ways of addressing hunger needs, the environment, and debt rather than sitting through a never ending annual approval process.

Moving ahead to the 1990 Farm Bill and the renewal of the PL 480. The Coalition fully supports a full four year extension of PL 480 and suggests the following changes.

1. COMMODITY SUPPLY

In order to ensure commodity availibility, PL 480 should be amended to abolish the docket process for Title II so that it no longer limits Title II. It is ridiculous to require PVO's to switch small quantities of wheat soy blend to corn soy blend because USDA is unsure of the total U.S. wheat crop of billions of tons. The entire Title II requirement is only 1.9 million tons and this includes a variety of commodities such as wheat/wheat products; corn and corn products; peas and lentils, and vegetable oil. None of the amounts used by Title II represent a fraction of 1% of the total crop. Besides, Congress appropriates funds to buy Title II commodities on the open market, not just to supply from CCC inventory. In the past, only dairy products and some whole grains were taken from CCC inventory, but dairy products are no longer available to Title II, just because CCC doesn't own it. I thought the Congress eliminated the surplus disposal intent from the law in 1966. Government witnesses have also expressed concern about docket limitations and have suggested it be eliminated. We hope this situation can be remedied since it disrupts programs; creates additional costs overseas, and sometimes, even destroys long term market development activities. Lastly, it conveys the message that the United States only provides food aid to the neediest when all other requirements are met and that our farm programs do not grow food or produce dairy products for food aid needs.

2. MANAGEMENT COSTS

Both government and PVO witnesses have commented that the management of Title II programs is costly and labor intensive. Yet the law makes no provision for management costs beyond the transport and occasionally storage of food and small administrative costs. PVO's and their local counterparts provide much of the labor costs. Local governments are encouraged to contribute. Unfortunately, the lack of any dollar support limits the PVO's capability to better manage programs, to be more creative; to evaluate results and even to respond adequately to the growing paper work required by audits and evaluations. Many have asked the question, why aren't there more PVO's working in more underdeveloped countries, particularly Africa?

The answer is that they simply can't afford it.

Most government commodity or service oriented programs provide some funds for personnel and administrative costs. We believe this would be appropriate for PL 480. The monetization of some commodities has helped offset some of the growing costs but there are some costs which cannot be paid in local currency and some countries where monetization is not appropriate. The Coalition recommends that $15 million dollars of the current Title II appropriated levels be authorized for program support and management. That's less than 2 1/2% of the total program. These funds should be transferred by USDA to A.I.D. for programming exclusively to food aid programs and not in support of other A.I.D. programs. Voluntary agencies and cooperatives could apply for and justify the need for the dollar funds in their multiyear plan. This amount is in addition to monetization proceeds and A.I.D. dollar grants. The small dollar amount equates to less than 50,000 MT of food out of 1.9 million.

3. U.S. GOVERNMENT STAFFING

On the issue of management, the Congress should be aware that both A.I.D. and USDA are woefully understaffed for the size and complexity of the program. A.I.D. has less than 50 employees in Food for Peace. There were four (4) times that many when I joined A.I.D. in 1967.
Sadder still, is that the professional Food for Peace Corp is being abolished, in addition there are very few Washington based GS employees left to serve as the history bank and trainers of the new employees. Generalists from other A.I.D. backstop areas are slotted into Food for Peace on a rotational basis. Unfortunately this is mandated by the A.I.D. personnel system but has created management problems for Food for Peace. The Coalition recommends that the new Administrator of A.I.D. review the staffing levels and training needs of Food for Peace in both AID/Washington and the field.

4. THE DEVELOPMENT COORDINATION COMMITTEE (DCC) APPROVAL PROCESS

The decision-making roles of the members of the Food Aid Subcommittee need to be better defined, so that they only provide input relative to their area of expertise. In my opinion and from my past experience, the DCC is micromanaging Title II. I see no need for weekly DCC meetings to discuss the details of Title II

programs, especially if the multiyear approval system is fully implemented. Since A.I.D. is charged with management and oversight of Title II, A.I.D. should have the final word on each program. USDA, State, and OMB should focus on to their areas of responsibility and not attempt to judge the economic development or humanitarian justification for a program. Short of abolishing the DCC totally, other agencies should make recommendations to A.I.D. rather than have veto power.

There is an intensive in-house A.I.D. review process in addition to the DCC. Geographic bureaus and the Program Policy Coordination Office of A.I.D., all have to sign off on PVO programs before they go to the DCC. This A.I.D./Washington process begins only after the program has been approved at the field level by representatives of A.I.D. USDA, and State. The Coalition recommends that the roles of State, OMB, and USDA be limited to an annual overview of budget allocations for PL 480, Title II.

5. AUDITS AND REPORTING REQUIREMENTS

The whole process of annual approvals, extensive reporting requirements, evaluations, and audits seem to have the "tails" wagging the dog. More resources and people are devoted to oversight than implementation. No one is opposed to oversight, evaluations, and audits. Voluntary agencies have to report to their constituencies, board of directors, and the press. They can't afford to run bad programs. Over the years the management expertise of the PVO's has improved significantly. Reporting requirements and audits are becoming more and more time consuming. The question is often asked - "By what standards are we judged?". Criteria for audits often don't take into consideration the operating conditions in the country. A PVO can hire a more qualified accountant in Indonesia than in most African countries. In rural areas PVOs have difficulty recruiting local staff who can read and write.

The Coalition suggests a review of the Title II reporting requirements and audits. A special AID/PVO working group, including the Inspector General's Office, should be established to review criteria and develop a scope of work for PL 480 Title II audits that is reasonable and reflects the conditions of the countries which we are trying to assist.

6. NEW INITIATIVES - THE FUTURE

In the rush to clean up the old Food for Peace law, we are concentrating too much on the past and not on the future. While some cleaning-up of the old law may be required, we need to recognize new priorities such as the environment and debt.

You may not realize it but Food for Work projects administered by PVO's over the years were and still are involved in protecting the environment. Reforestation and flood control imbankments, to name two examples, have all been part of Food for Work for years. I remember receiving a phone call from a colleague in A.I.D. several years ago with a question. How many trees did you plant using food aid? I asked why? He said he had a Congressional inquiry on the number of trees planted and all his office could produce were studies. Food for Peace contacted all the PVO's and World Food Program. The answer was that Food for Work projects result in the planting of millions of trees. Why can't we use food to save the environment? We can! But you can't organize tree plantings or any other kind of environmental projects without cash too! The food can mobilize people, provide some local currency, but there will be dollar costs.

PVO's at their own grass roots level have been working on debt issues--the debt of the small farmer or enterpreneur. Can food aid be used to create jobs and stimulate economies? Again, the answer is yes. Monetization projects such as NCBA's oilseed project in India, Trade and Development Foundation In Indonesia, and Land O'Lakes Jamaica Agriculture Development Foundation, are creative uses of food aid. Given encouragement PVO's and cooperatives could generate more creative ways to help solve individual countries debt problems by generating jobs and increasing incomes.

7. Title I

Title I programs must be approved earlier in the year. The expectations of local currency uses could be more realistic, and could emphasize infrastructures and efforts that would help U.S. market development.

We had hoped that the private enterprise provisions of Title I Section 108 could generate more business activities. The implementation guidelines became very complex and constraining. We suggest that the Committee amend Section 108 to make it easier to administer and more appealing to host government and

the private sector.

8. Overall Goals of P.L. 480

There has been a considerable amount of debate about the four objectives of Food for Peace. There seems to be concern that the political, market development, economic development, and humanitarian goals of the law, are in conflict or must be met in all cases in every country.

This kind of a debate is a recent phenomenom. For years, eveyone was very happy and even thankful to have a law with multiple goals. We praised those who drafted the legislation for their wisdon and forsight. In recent years, scholars have focused on conflicts or even suggested that programs had to comply with all if not most of the goals. The conflict is with the people who are interpreting, not the law. The Secretary of Agriculture and the Administrator of A.I.D. are delegated with the responsibilities to administer the program. Let them sit down and do it. It's easier than you think and it has been done before!

The United States has played a leadership role in donated food aid. Donors have followed the blueprint of Food for Peace. We helped to create the World Food Program. In every crisis, whether it is a hurricane, drought, or war, we are called upon to take a lead role. Let's not let them down.

Thus, I hope that in the upcoming farm bill, the benefits and success of food aid programs are not forgotten. A lot of people in the private sector have invested time and money to make this program work, and through reauthorization, Mr. Chairman, their partnership in the U.S. food aid program can be recognized. Moreover, we cannot forget that the need for food is still with us, and I believe it is our nation's responsibility and opportunity to help alleviate world hunger.

Thank you Mr. Chairman

Senator DASCHLE. Since Ms. Sheehan, to a certain extent, speaks for Mr. Donnelly and Mr. Gollehon's organizations as well as her own on some of these issues, I would just ask you, John, whether you share the view propounded by all three of the other witnesses with regard to dockets. Would you drop them entirely?

Mr. MELCHER. I certainly would, and so recommend. The experience, as Peggy has outlined, is archaic. Maybe it was needed in the 1950's and possibly even in the early 1960's. But what function it provides now is hard to find beneficial.

Senator DASCHLE. We have tried to encourage multiyear food programs, and it would seem to me that the docket would undermine the efforts to promote longer-term projects. Can you elaborate at all on that assumption?

Mr. MELCHER. Well, I think it certainly does.

Senator DASCHLE. Go ahead, John, but then I would ask anybody else to respond as well.

Mr. MELCHER. I think it certainly does undermine the multiyear programs and it undermines everything else we're trying to do in Public Law 480 because the economic benefits that flow from the program both to the developing countries and to us cannot be measured in a 12-month period. And as a matter of fact, when you look at when any of these programs are approved for a PVO, it is probably toward the tail end of the year anyway. And how you can measure the benefits that you are going to gain from that, that one calendar year, 12 months, stretches the imagination.

So from every standpoint, it defies the goals of Public Law 480.

Senator DASCHLE. In addition to dropping dockets, what would be the single thing we could do to improve the utilization of multiyear programs?

Mr. MELCHER. For one thing, don't require them to be reviewed annually. These people work with them year in and year out.

Senator DASCHLE. Is that the most important thing we could do?

Mr. DONNELLY. I would certainly say that it is one of the important things that should be put into effect. The programs that we are describing here today are programs that require a great deal of planning and commitment not only on our own part but those of the communities and local governments. Actually by the U.S. Government's own timetable it requires an 18-month leadtime. Given this, we need to have that kind of multiyear commitment or more to these programs if they are to have any kind of integrity. So I would say yes.

Ms. SHEEHAN. Yes, Senator, I would agree. Also, again one thing that could be done on the multiyear planning is to dovetail the commodity approval process with the dollar approval process.

At one time that was being done so that the voluntary agency could put forward a multiyear plan knowing that they had both the commodity and the dollar support that was requested; therefore, they could make commitments on staff, they could make commitments on overseas warehousing, technical assistance, whatever they needed to do. So the whole picture was looked at as opposed to being splintered or looked at in parts.

Senator DASCHLE. Mr. Gollehon, you mentioned Uganda. And from what I understand of the Ugandan projects, they seemed to work fairly well. In your experience with the Ugandan projects,

what changes would you recommend for AID? Were there things that happened there that you felt are exceptions to the rule that you would encourage us to examine more carefully for implementation as a regular part of the process?

Mr. GOLLEHON. I think an increased awareness of how these Public Law 480 food-for-development, if you will, programs can be used in development activities is very important. And oftentimes I think there needs to be more emphasis on that and this information reaching the various missions where the decisions are being made on development efforts in those countries. And if there was an increased awareness of how food for development, if you will, can be used, that we would see more of those kinds of programs. And given the levels of our foreign assistance today, I think they are badly needed.

Senator DASCHLE. There is a concern expressed by some that we need to encourage the participation of PVO's more aggressively in Africa. What could we do to encourage more involvement on the part of PVO's in Africa? Does anybody have any thoughts on that?

Mr. DONNELLY. Catholic Relief Services has a long history of being involved in Africa, and we remain there today. I think that when one speaks about the need in Africa, you also have to contrast it against the absorptive capacity, if you will, of the African infrastructures. But if PVO's are to operate in Africa, I think first and foremost they need funding, they need dollar support from the U.S. Government to carry these programs out.

Our programs in Africa entail a great deal of support from local communities, but if PVO's are to push these programs to the rural areas, it will continue to become prohibitively more costly, and I think the U.S. Government has to recognize that. And if we are to stay there, that is one of the things that is required.

The second thing is something that Peggy spoke about before, and that is the accountability and the lack of recognition of the operating environment. You are as accountable in Africa for one bag of Bulgur wheat as you are at the Port of Baltimore, Maryland, or New York. And it simply is not feasible, it's not attainable, and it's counterproductive.

Senator DASCHLE. What would you tell a skeptic? You have all mentioned the burdensome requirements of the audits. We are more aware now of the problems associated with misspent funds. How could you convince a skeptic that we can maintain a high degree of proficiency and a high degree of honesty in the system and still reduce the auditing requirements, to avoid what has happened in so many agencies of Government in the last several years?

Mr. DONNELLY. Well, again speaking for Catholic Relief Services, I think I would ask the skeptic to look at the audit reports themselves. The reports are slim in terms of actual recommendations and solutions. Unfortunately, as you do indicate, there is a certain sensationalism attached to these findings.

But PVO title II food programs can in no way be compared to the title I programs or any of the programs at other agencies.

Senator DASCHLE. Ms. Sheehan, would you care to address that?

Ms. SHEEHAN. Over the years, and I don't know what the statistics are today, but after studying the losses for about a 5-year

period, we concluded that it was about a 3 percent loss. Now, granted all that you hear about is the loss, somebody finding something on the dock or the sensationalism that John was speaking of.

Senator DASCHLE. But couldn't someone say that outcome is as a result of auditing and not in spite of it?

Ms. SHEEHAN. I think the one thing that people forget is that the voluntary agencies, agencies like Catholic Relief Services and CARE, NCBA and ACDI, we have our reputation at stake. We have our own auditors. We have our own standards that are higher than the auditors.

But what is required now, what is happening now, is duplication or a focus on counting bags, as opposed to looking at the program results. And so it's not the policing that is getting the good results. It is, we believe, our own efforts which we would like to redirect and spend less money on and not have to "jump through so many hoops."

No one is against auditing. We would like to work with the auditors to establish some standards. Currently, it is like a never-ending process of questions. There are no set of questions that go into any audit.

Senator DASCHLE. What percentage of your time do you spend with AID, the Department of State and the Department of Agriculture at this point? Has it gone up over the last 10 years, or is about the same?

Mr. DONNELLY. We had an audit in 1985 that is, I think, this week being finalized. Now, that took a considerable amount of time, overseas trips, energies, not only on our part but on the parts of people like Phil Christenson, who was here earlier, and on the part of the IG.

It just reaches this incredible bureaucracy that it makes no sense anymore. You're spending more money in just trying to chase down the final results of an audit report than the audit itself may have warranted in cost recovery.

I would say, sure, our time is—we have an office in New York with a budget of in excess of a half a million whose sole purpose is to process claims. Now, I would like to feel that that money is appropriate because those claims are collectible, but I do object to putting PVO's into the position of expending another half a million dollars that could be going into development project activity to process claims that are never going to be collectible in the Third World.

Senator DASCHLE. Any other comment on audits?

Mr. MELCHER. Well, Mr. Chairman, I would like to make one comment on that. I think the answer to any skeptic on the honesty of Public Law 480 through the private voluntary organizations is simply to just look at the record. The record is outstanding, and there is a fraction, a very small fraction, of abuse or corruption compared to any other foreign aid program the United States has ever had.

Mr. GOLLEHON. I would just second what has been said about look at the record of what has happened in the past. Our member organizations are very careful that we have the necessary documentation and annual audits required to have a business that they are proud of.

In fact, we have members of our board of directors that go in teams to look at our projects overseas, at their own expense. And one of the things that they look at is how well we are carrying out the program; and how well we are documenting what we are doing; and what is happening to the resources.

There is a certain amount of internal policing that I think takes place among all the CDO's/PVO's, that has been helpful to keep those losses to a minimum.

Senator DASCHLE. Is it an accurate summary of your testimony this afternoon that, in the case of Africa, you are underfunded, understaffed, overaudited, and that because of all of those major obstacles, the PVO's are not in Africa the way they should be? Is that a fair assessment of what you said?

Mr. MELCHER. Yes. It would be hard to argue with that statement.

Senator DASCHLE. Any other comments or questions?

[No response.]

All right. Thank you very much.

Our next panel is comprised of: Steve McCoy, the president of North American Export Grain Association; Daniel Shaughnessy, president of Export Processing Industry Coalition; and Owen Cylke, the senior Deputy Assistant Administrator for the Bureau of Food for Peace and Voluntary Assistance, U.S. International Development Cooperation Agency.

Mr. Cylke, before we begin with the opening testimony, react to that very general summary statement I made from the last panel of witnesses. No one objected to my characterization of their statement that they are underfunded, overaudited, understaffed, and underencouraged to get involved in very difficult locations such as Africa.

I consider their statement to be a fairly strong indictment of AID. It may not be fair to put all the blame on the agency—but certainly it's not unfair to blame the program.

I hope this does not look like an ambush, as you weren't prepared to address this question head on, but give me your best shot.

First of all, do you agree with their testimony? And secondly, what would you do to solve the problems they identified?

STATEMENT OF OWEN CYLKE, DEPUTY ASSISTANT ADMINISTRATOR, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, DC

Mr. CYLKE. Thank you, Senator. Let me just comment quickly—on the ambush.

AFRICA IS WHERE WE NEED TO BE CONCERNED

Clearly, when you look at hunger in the world today, as anyone looking at the statistics will see, and as I will mention in my remarks, Africa is where we need to be concerned. Most estimates, without talking about actual numbers, would indicate that half the world's hungry are in Africa; and if half the world's hungry are in Africa, essentially everyone in Africa is hungry. So we agree that there is a problem.

TAKING THE WORD "HUNGER" AND HOW TO APPROACH IT

Secondly, I would then say, just taking the word "hunger" and how to approach it, which is something else I want to talk about, there is tremendous—not confusion—there is really uncertainty within the development community, within the private voluntary agency community, among African governments, economists, agronomists, as to how to systematically approach this question of hunger. Is it just a matter of feeding? Is it an economic development problem? Is it a climate problem? Is it a political problem?

So the answer just isn't to give more food to the private voluntary agencies. It's a very complicated kind of issue which again I will address in my comments.

The cost of operating feeding programs is very high—not just the cost of following audits. The costs of moving food, not through markets but organizationally, particularly through public kinds of organization, which really the private voluntary agencies are. Those organizations are not markets, they are organizations. The costs of operating feeding programs are quite high.

RAISE THE LIMITS ON MONETIZATION

One thought that we have had, and which I was surprised that the private voluntary agencies haven't mentioned here today, would be to raise the limits on monetization. Currently, we are able to monetize 10 percent of title II food aid. And we really only have two major private voluntary agencies delivering food in the world: CARE and CRS. Many other private voluntary agencies don't want to come into the business, not just because of the costs but because of the control vulnerabilities which are associated with doing this food aid business.

Some of these audits we have been discussing, in fact, are related to questions of fraud. It's a very complicated business to do.

If you monetize, what the private voluntary agencies would essentially do would be to deliver the commodity at the port, have it sold into the marketplace, take the local currencies and for example do, instead of food-for-work programs, cash-for-work programs. It seems to me with that kind of a program we might encourage many other private voluntary agencies to consider coming into the program, and probably lessen some of the costs.

Instead of moving food from Kansas and South Dakota all the way to the last point of need, move it to the port, sell it, use local currencies, and if necessary buy some foods up-country. You can manage cash-for-work kinds of programs without the same kind of bulk commodity management problems that you have with cash.

Senator DASCHLE. Let me just ask you a question about that. I have mixed feelings about increasing that.

Mr. CYLKE. So do I. It's a complicated issue.

Senator DASCHLE. But would you not be vulnerable then? I have always thought that monetizing allows for greater possibilities for fraud and abuse in the receiving country. Would it not do that?

Mr. CYLKE. I don't think so, sir. I think, in fact, to the contrary, that selling food into markets is simpler and cleaner. It moves into markets, you sell to a trader, he deposits the full value of the commodity on food in cash, he then takes it and sells it.

Who then buys it isn't our concern. The food is moving into the marketplace where 98 percent of the food supply of any country is moving at any rate; and rather than running a welfare or feeding program by a United States organization in the country, let the private voluntary agency take the local currencies and run a proper program as they would here at home.

It's not the total answer to the question of cost and vulnerability, let me assure you, but it's something that wasn't mentioned that I thought should be mentioned.

One last thought is in my mind. As we talk about Africa, most of the private voluntary programs, as you know, are brought to us on a proposal basis by the private voluntary agencies. In other words, we fund what is brought to us, and we are not seeing programs coming to us for programs in Africa. It's not that we are turning programs down for Africa, they are not coming forward.

So one thought that has occurred to me for some portion of the title II program would be to put the programs out on bid, in other words reverse the process and put it out for tender. And then we would say that we have 100,000 tons or 300,000 tons available for Africa and we would like to see which voluntary agencies will bid on that tonnage, with what kind of a proposal and at what cost.

It seems to me this proposal would be a way of changing the discussion and really asking the private voluntary agencies what it will take to maintain or increase food aid programming in Africa. In today's world, frankly, our largest programs are in India, not just because—and I was the AID Director in India—not just because there are many hungry people in India but because, as one of the speakers mentioned, the infrastructure is in India and it's not in Africa.

One last point, if I can quote Peggy Sheehan, and in defense of my agency, just so you know it's not just AID burdening them down, she said there were four times as many people in the food aid business 15 years ago when she was there and many more people overseas. It seems to me there are too few of us today to be causing too many problems. The problems are really in the nature of the food aid program process that we are trying to deal with.

Senator DASCHLE. Let me just say you have given me a lot of excellent information. Are you underfunded? Yes or no?

Mr. CYLKE. Yes or no? Let me say that with the Public Law 480 program, as far as we go as an agency, 100 percent of the program that is made available to us is made available in the form of commodities. There is no dollar support that comes out of the Public Law 480 program for us as an agency—no funding for administration or management. Out of the $1.5 billion, not one dollar.

Senator DASCHLE. Are you satisfied with that level of commodities?

Mr. CYLKE. That really isn't the question. There is not one dollar allocated for the support of the program from the Public Law 480 law.

The support costs, to the extent they are borne, are borne by the private voluntary agencies directly or borne by the Agency for International Development directly. The program doesn't carry its own costs.

Senator DASCHLE. OK. Let me ask this: Are you underresourced?

Mr. CYLKE. Personnel or finance?

Senator DASCHLE. Well, tell me.

Mr. CYLKE. I am going to make the comment in my statement that I think that we are dramatically undercapitalized as a program.

Senator DASCHLE. Undercapitalized.

Do you believe PVO's are overaudited?

Mr. CYLKE. Let me answer that by saying that the operating budget available to the Inspector General of AID, I think, has increased by a significant factor while the operating expense of the agency has stayed flat. So, yes, audits are increasing.

Senator DASCHLE. You are all now welcome to make your statement. I personally get a lot more out of asking questions and having a good dialog than hearing prepared remarks, but I do think that there is a very important role for prepared remarks to set the record. And to the extent that we need to create a record, I would encourage you all now to make your prepared remarks. Let us just start with you Mr. Cylke.

Mr. CYLKE. I appreciate your question, and let me just lead directly into it.

Senator DASCHLE. We are supposed to make sure everyone understands their entire prepared statements will be a part of the record. You are encouraged to summarize your statements in any way that you see fit, and the green light is there to let you know how long you have.

Mr. CYLKE. I will save time by not making that opening statement.

SERIES OF WORKSHOPS AND FINDINGS

Mr. Chairman, we at AID sponsored a series of workshops and seminars all across the United States these past 2 years in an effort to solicit the thinking of a wide body of persons and groups on food aid in anticipation of the interest of this committee in the kinds of questions which you just directed to me. What I would like to do is just touch on some of the findings of that series.

THE PROBLEM OF HUNGER DOMINATED VIRTUALLY ALL SESSIONS

First, and perhaps most important, the problem of hunger dominated virtually all sessions. I have been struck today by the absence of conversation about world hunger. And I want to just underscore how important it was in almost every session that we sponsored all across the United States these past 2 years.

While there was some disagreement on precise numbers, causes, and approaches to its resolution, there was agreement that the absolute number of hungry people in the world has increased in the last decade and will continue to increase into and past 1990.

Perhaps the best summary statement I can give you on this issue is contained in a report of experts to the National Academy of Science in a seminar we sponsored in October 1988, where it was agreed by representatives of the FAO, the Department of Agriculture, representatives from the University of Iowa, experts across the board, that food aid requirements would rise in the period 1995 to 2000 to something on the order of 30 million metric tons to 50

million metric tons a year. Compare that, Senator, with AID deliveries of 10 million metric tons in this past year. The need, the hunger problem, is vast.

FOOD SECURITY AS AN ORGANIZING DEVELOPMENT PRINCIPLE

Mr. Chairman, there has been little consensus on how to relate the phenomenon of world hunger to development. Indeed, it is an issue which has sparked debate over the past several years, indeed decades. Humanists and determinists, economists and agronomists, businessmen and social welfare workers, Government and private voluntary agencies have all taken positions, often in contradiction of one another, without consensus.

During our seminars there seemed to emerge, however, a new consensus around the concept of food security. And let me just spell that out briefly.

First, food security seems to be a concept which contains a concern for the supply or the production base for sustainable agriculture in the developing countries.

Second, food security encompasses a concern for access to that food supply, for the demand against that supply, for employment and income for the populations in the developing countries.

Third, there is a growing concern for those left outside the system of supply and demand, for the safety net, albeit a concern for a cost-effective safety net.

The "food security" idea contains two other key components:

And there is a growing recognition that it is self-reliance and not self-sufficiency that countries should be seeking, that food imports in many developing countries should be part of the natural order of things as a sign of progress, not necessarily of poverty.

And finally, there is also a recognition that relief feeding is a last, not a first, resort; that relief is not a part of the natural order of things.

Mr. Chairman, I believe that food security is an important idea, a healing idea around which the various communities concerned with hunger and development can rally.

IT IS ALSO IMPORTANT TO UNDERSCORE THAT THIS APPROACH IS NOT ONLY GOOD FOR THIRD WORLD DEVELOPMENT, IT IS ALSO GOOD FOR GLOBAL DEVELOPMENT

It is also important to underscore that this approach is not only good for Third World development, it is also good for global development and particularly for the United States. A robust, developing world means important new agricultural markets for the United States. The absolute correlation between growth, even agricultural growth, in the developing world and U.S. agricultural exports was demonstrated time and time again at our various seminars across the United States these past 2 years.

FOOD AID IS A PARTICULARLY EFFECTIVE RESOURCE

Finally, Mr. Chairman, there is a good case to be made that food aid is a particularly effective resource to address these questions of hunger, development, and sustainable agriculture.

Put simply, food itself is at the center of development activity. It is what people work at, what people spend their incomes on, stocks of which dictate the financial health of economies and so on. And it is food aid which mirrors this strategic resource, a resource, Mr. Chairman, more akin to gold or oil than, say, to flax.

For example, when we sell or monetize our food in markets abroad, we make a development decision: Will we sell and reinforce public or statist markets, or private and free markets? Food aid is quite unique among all the development tools available to us. We can actually have enormous leverage on the nature, shape and direction of agricultural marketing in the world. A Public Law 480 level of $1.5 billion is an important development resource.

IMPLICATIONS

So, Mr. Chairman, what are the implications of these findings? Let me suggest four which came from our seminars and on which I believe there was consensus among the people we met across the country:

First, that the development objective for food aid under current law should be organized around principles of food security; in other words, food aid should be allocated to food-insecure countries and food aid and local currency should be used to resolve the dilemma of food insecurity.

Second, that the market development objective should be more focused on countries with real trade potential, on countries moving from aid to trade and reflecting the disaggregation of the developing world itself between what we would call the advanced developing and developing countries.

Third, that emergencies should be treated as a distinct concern on a par with development and market development, and not left simply as reserve claims.

And fourth, that we make a more fulsome commitment with dollar resources from the Public Law 480 account itself to building the intellectual and institutional underpinnings of food aid, something that we have overlooked in our focus on commodities.

Finally, Mr. Chairman, I would note that a range of other efficiency and effectiveness improvements were suggested during our seminars, and they are referred to in the main text of my remarks.

Thank you.

Senator DASCHLE. Thank you very much, Mr. Cylke.

[The prepared statement of Mr. Cylke follows:]

STATEMENT BY MR. OWEN CYLKE
DEPUTY ASSISTANT ADMINISTRATOR
BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE
AGENCY FOR INTERNATIONAL DEVELOPMENT
BEFORE THE AGRICULTURAL COMMITTEE
U.S. SENATE, NOVEMBER 7, 1989

INTRODUCTION

Mr. Chairman and Members of the Committee, it is my privilege to appear before you today. I would like to discuss the very real development potential for food aid in our foreign assistance programs.

Indeed, in anticipation of your interest as a part of the reconsideration of the Agriculture Trade and Development Act, the Bureau for Food for Peace and Voluntary Assistance at the Agency for International Development sponsored a series of seminars, workshops and public forums across the United States during 1988 and 1989 where we solicited a broad range of opinion on food aid. I am here to report some of the views expressed in those sessions to you today. For your information, we included participants from the agriculture, farm, agri-business, trade, development public policy, university, and private voluntary communities at our sessions.

FINDINGS

1. Hunger. The problem of hunger dominated virtually all sessions. It remains a harsh reality in the developing world, sapping the strength of people and nations, and standing as a litmus challenge to those of us concerned about development and to all of us in the agricultural surplus and industrially advanced countries of the OECD. Just a very few statistics describe the challenge.

Almost 30 percent of the world's population, perhaps some 1,500 million, live in countries which could be classified as hungry. Half of those are in Africa, a quarter in East and South Asia, and the remainder in our hemisphere. Closer to the bone, about 1 billion people in the developing world live in households with diets insufficient to support work, and maybe an additional half billion live in households with diets insufficient to support a standard of personal security that we would dignify as life. And even closer to the bone, we are all aware of the special vulnerability of women, particularly pregnant women, and children to hunger. While estimates of actual populations "hungry" vary, there is little disagreement among experts that the absolute number of hungry people has increased in the last decade and will continue to increase into 1990 and beyond. Frankly, Mr. Chairman, and in summary, much of the developing world is simply exhausted - people and nations - exhausted from the scourge of hunger.

2. Food Security as an Organizing Development Principle. The communities we engaged over the past two years are deeply divided on the issue of hunger - divided on the statistics I just cited, divided on the characterization and description of the problem, on its causes, and certainly on its resolution. I will not rehearse those differences here. Suffice it to say that they exist between determinist and humanist, between economist and agronomist, between the business and welfare communities, between different governments, and even within governments. We have seen the issue debated here in the Congress, and we have debated it within the development community and within the Executive Branch itself. With this background, and as we approached the national dialogue on food aid legislation, many of us despaired of finding or defining a coherent framework for considering hunger and its relationship to development.

But many participants felt that the words "food security" may point the way towards a coherent development strategy that could seriously, and with effect, address world hunger. Let me try to spell out the idea simply.

- First, food security would encompass a concern for the production base - the food supply - through promotion and financing for research and economic infrastructure for a sustainable agricultural regime in the developing countries.

- Second, a concern for access to the food supply - the demand side - through promotion and investment of economic infrastructure in support of employment and incomes in the developing countries.

- And third, a concern for those left outside the supply and demand system - a concern for the safety net - albeit a cost-effective one that takes into account who should be included, at what costs, and with what kinds of financing.

The "food security" idea contains two other key components:

- a concern for agricultural self reliance, not self sufficiency - an idea which could contemplate continuing, indeed growing, food imports in many developing countries as a part of the natural order of things - as signs of progress not poverty;

- and a recognition that relief feeding is a last, not first, resort - an idea which does not see relief as part of the natural order - rather as a sign of poverty, not progress.

What we may have here, then, is the makings of a new organizing principle for approaching hunger and development:

- one rooted in our profound, ethical concern for the poor, hungry and exhausted;

- one rooted in sound, sustainable approaches to the promotion of agricultural production and to the promotion of employment and income;

- and one cognizant of the positive potential for continuing and expanding a U.S. food trade relationship with the developing world.

3. Famine Prevention. There was widespread consensus that we need to maintain, indeed enhance, our commitment to preventing famine and famine-related deaths. Score of proposals were put forward during our sessions around the country, including an emphasis on early warning relief interventions in zones of armed conflict, even discussion of international agreements on rights of civilians to food in zones of armed conflict, and a continuing concern for economic reform and agricultural sector rationalization. We have done well in recent years, and our worldwide logistical system to provide emergency food aid continues to improve. Yet famine is still only at the fringe of development thinking despite it's very real, pervasive and corrosive effect on the development prospects of much of the developing world.

4. Agricultural-led Growth Strategy. Moving, then, to more traditional territory for the development community, there was widespread agreement that an agriculture-led growth strategy makes eminent sense in much of the developing world. The rationale and implications of such a strategy are straightforward. For a nation to move forward, agriculture must provide the food to back higher incomes and to improve health, and it must directly account for much of the rise in employment in developing countries. A virtual agricultural revolution is essential to provide the wage goods and the purchasing power to sustain growth in the nonfarm labor force. John Mellor first articulated this blueprint in 1976, and it has stood well the test of time.

The strategy distinguishes between "food self reliance" and "food self sufficiency". It recognizes that comparative advantage may rest with the export of one farm commodity or manufactured product and the import of yet another food commodity or manufactured product. The idea that a country has to produce all of its own food commodities to be food secure is largely discredited, and the new concept of "food security" includes a concern for the capacity to import - a concern for foreign exchange availabilities.

The strategy also suggests that growth and development in the developing world will make better customers for American farm exports. The idea here is that increased incomes will come initially from the farm sector, that these increments to income will be spent predominantly on increments to diet and, almost as inevitably, increments to income will lead to demand for improvements in diet. This, in turn, may lead to increased imports of basic food grains, then to basic feed grains, and eventually to value-added agricultural products. The record on this phenomenon is now well established and clear cut.

5. Disaggregation of the Developing World. A fifth point brought home to us during our discussions around the country was the increasing disaggregation of countries in the developing world. There is today an almost bewildering string of acronyms used to characterize the various stages of this disaggregation. Simply put, there is a large and growing number of what I will call "advanced developing countries" - countries which are still importing food commodities, but are what we would describe as food secure - secure in the sense that they have an appropriate or economic balance between domestic agricultural production and imports. There is another set of countries which we can call food insecure, in the sense that they have depressed agricultural production, inadequate domestic income to constitute anything resembling an effective demand, and evidence of widespread hunger. Interestingly, both sets of countries may suffer foreign exchange shortfalls.

These are very different kinds of countries and situations, with very different prospects for development, and trade, and which the development community is increasingly beginning to disaggregate in terms of strategic approach.

6. U.S. Food Aid. Let me move now to the world of food aid itself. There is still only a reluctant recognition that food aid - PL 480 - is no longer dependant on farm surpluses, and that it is rather drawn from the market with appropriated dollars. The reluctance is probably rooted in a disinclination to question whether food aid makes sense if it has to be budgeted in completion with dollars as a development resource. Let me make the case for a continuing rationale.

In the first instance, food itself is a critical development resource, not just another consumption item. Food isn't just any commodity. How so? With upwards of 80 percent of rural populations in developing countries working to produce food, and a similar percentage of total populations spending up to 80 percent of earned income on food, and with national food stocks determining price regimes and inflation rates, food in a developing country becomes a strategic resource - more akin to gold or petroleum than, say, to flax.

Food is at the very center of the development process for most developing countries, and our ability to engage these countries - these economies - at this most basic level gives us, the food aid donor, a strategic position within their development plans. Indeed, the concept of "food security" as a development idea is emerging from the food aid community itself, not from the more traditional development community.

Mr. Chairman, it was clear to me, based on my travelling and talking around our country these past two years, that there is a very clear and strong public sentiment all across the United States that we apply our rich agricultural capacity to combat the scourge of world hunger and to promote development. I think most of us understood that intuitively, but our engagement over these past two years has brought the message home to every one of us in the Bureau for Food for Peace and Voluntary Assistance at the Agency for International Development. There is, simply put, a sense for a very direct, very natural, and very compelling connection between our nation's agricultural productivity and world hunger. Our national bounty cries out for an international mission.

7. Food Aid Marketing and Distribution as the "Development Event". There are just two additional thoughts from our seminar series which I would like to draw to your attention. We all recognize the critical significance of a free and open market regime to development. Most developing countries have gotten the message, and enormous strides are being made with economic reform throughout that world. Even more recently, we are seeing a movement to free and open markets in Eastern Europe. Agricultural markets, of course, are the most basic and fundamental of all marketing and distribution systems. In many countries, they are controlled by state trading monopolies - monopolies which set prices, usually too low, and at levels which eat at the very fabric of a sensible economic regime.

Food aid interacts with markets in a very direct way - most of it is sold or monetized in markets. Food aid can be sold into state or private markets. We make choices with each transaction. Food aid can constitute a statement of what we believe about markets and their relationship to development.

The food aid sales transaction, then, is a development event of some significance. Today, when we think about food aid, we think most about commodity choice, and then the utilization of local currency proceeds. Tomorrow we need to think about where and how we want to see it sold. This point was raised at several of our seminars, and the significance of the proposition is just now beginning to make an impact on development practitioners. Increasingly, this choice between state and free markets will be at the center of the discussion about food aid and will increasingly define food aid's impact and significance on economic development.

8. Intellectual Investment in Food's Role in Development. It flows directly from the observations I have already shared with you that we have undercapitalized our understanding of food in the development process and the potential for food aid in the promotion of development. We spend some $1.500 million annually on food aid, yet we spend little on trying to understand the causes and determinants of hunger, approaches to famine and famine-related death, food security, the role of food aid in the shaping of market regimes, or to the potentials for trade and aid. Indeed, these subjects are grossly underfunded when compared to our development assistance investment in issues such as economic policy, the environment, child survival, population - the regular menu of the Foreign Assistance Act. This fact was made manifest to us as we sought materials in preparation for our seminar series, and indeed, for this hearing itself.

IMPLICATIONS

And so what are some specific implications of these observations for your reconsideration of the food aid legislation? Let me outline those consensus items which seemed to emerge from the participants at our seminars.

1. There was a clear sense that we need to continue our search for some greater clarity, even disaggregation, of objectives in the program. Possibilities suggested were to distinguish between "advanced developing" and "developing", or "food secure" and "food insecure".

2. There was a sense that the "development" objective in the current law might be better served if it identified those countries classified as "food insecure" and organized food aid responses around a new commanding development principle - food security - something rooted in the very nature of the resource and along the lines sketched out above.

3. There was also a sense that the "market development" objective in the current law might be better served if it identified those countries and situations in transition from aid to trade relationships and treated with them as a discrete category of concern. As our strategic interests as a nation are redefined in economic terms, it was thought that clarity of vision in this key area would better serve the economic and political interests of the United States.

4. There was a very clear sense that food aid directed at famine, whether induced by climate or political strife, should be a constituent part of the food aid regime - not a "reserve" claim against "market development" or "development". It was considered simply too pervasive and too serious a problem to be left to "emergency" treatment. It was argued that it needs to come mainstream.

5. Most development practioners cited the need to invest more directly in the intellectual underpinnings of food aid - in building the conceptual and institutional base for this instrument which accounts for almost 25 percent of development assistance resource.

6. And finally, there were a number of "efficiency" or "effectiveness" improvements for the food aid regime which were suggested during our travels and discussions these past two years. I would simply catalogue a few: the potential for increasing the institutional strength and numbers of United States non-governmental organizations participating in the program, for increasing the percentage of project food aid eligible for monetization, for refining the administrative processes for management of food aid, and rationalizing the loan/grant split as among participating countries, introducing the idea of loan forgiveness for some countries, introducing multi-year programming techniques, and finally eliminating some of the more costly and rigid mandates spread throughout the farm bill.

CONCLUSION

Thank you for your attention, Mr. Chairman and Members of the Committee. The development of agriculture and food production has long been an objective of the international development community. Agricultural projects are focused on producing more food. Development projects, and more recently economic adjustment initiatives, are aimed at building, restoring and maintaining economic growth - and thus at boosting the income people need to acquire food.

And food aid, PL 480, has a central role in our nation's approach to world development, economic growth, agriculture and hunger. America's agricultural bounty invites an international mission. Yet the alliance - between our nation's rich agricultural bounty and third world development - is far from perfect.

There are two ideas gaining currency in the development community which suggest the basis for a new alliance:

- food security as a new development idea - an idea tying together the problem of food availability with household income, and the potential of food production with economic growth, commodity and income distribution; and

- a sense that America's agricultural success story can be duplicated in the developing world if the pieces can be put

together in a dynamic, coherent whole - a market orientation for the farm economy, a demand driven agricultural technology machine, an aggressive agro-business sector, and a continuing sense of ethical concern for those left behind.

Thank you.

Senator DASCHLE. Mr. Shaughnessy.

STATEMENT OF DANIEL E. SHAUGHNESSY, PRESIDENT, EXPORT PROCESSING INDUSTRY COALITION (EPIC), ARLINGTON, VA

Mr. SHAUGHNESSY. Thank you, Mr. Chairman.

I will take you up on your offer to have my full statement submitted for the record. Thus, I would just like to make a few points.

INTRODUCTION

I had intended to comment on a subject that Mr. Cylke mentioned, and it was on the subject of hunger.

Chairman Leahy, in his opening remarks, noted the importance of continuing to maintain a commitment to dealing with the problem of hunger here at home and abroad and noted his participation in the Presidential Commission on World Hunger, in which I was also fortunate enough to participate in as well.

I share very much Mr. Cylke's concern that it is important to keep this subject in mind. That is one of the objectives we are striving for here and that is one of the purposes of this law.

EPIC SHARES AND SUPPORTS THE MULTIPLE OBJECTIVES OF THIS LAW AS A MEANS OF DOING A NUMBER OF THINGS

Having said that, I also would say that the Export Processing Industry Coalition, whom I represent, shares and supports the multiple objectives of this law as a means of doing a number of things.

Our organization, the Export Processing Industry Coalition, is a combination of those industry representatives involved in corn refining, flour milling, soybean processing, and 10 international labor unions whose members work those plants.

WE ARE STRONGLY SUPPORTIVE OF PUBLIC LAW 480 AND WE ARE SUPPORTIVE BECAUSE IT HAS THESE MULTIPLE OBJECTIVES

We are strongly supportive of Public Law 480 and we are supportive because it has these multiple objectives. For us, when we see processed and value-added products exported in this program, it not only helps people abroad but also, it means jobs and economic benefits here at home. And I think that is one of the strengths of this program. It covers many of these multiple objectives.

And we believe, from a political standpoint, as the Congress reviews and considers the reauthorization of Public Law 480, the strength of the multiple constituencies that support those objectives is important to keep in mind. It has been the strength of this program for 35 years, and probably will continue to be.

ADJUSTMENTS ARE NEEDED IN THE LAW

Now this is not to say that some adjustments are not needed in the law. I think that some of the things that have been identified here today are very real. I personally believe that most of them are administrative, and not necessarily the subject of legislative action. But nevertheless they need attention.

CURRENT IMPLEMENTATION OF THE LAW IS A PROBLEM

I do feel that the current implementation of the law is a problem. Problems of delays in program approval, problems inherent in the bureaucracies of the agencies involved in the interagency process, and all of the various items that have been discussed here today are, indeed, real and existing concerns.

THERE IS A GREAT DEAL THAT CAN BE DONE IN TERMS OF ADMINISTRATIVE RELIEF AND IN TERMS OF GREATER FLEXIBILITY IN THE MANAGEMENT OF THE PROGRAM

I think that there is a great deal that can be done in terms of administrative relief and in terms of greater flexibility in the management of the program. Some of that relief may have to be legislatively directed. However, I do not feel that a major change in the program, major changes in its titles, or major splitting up of its resources is the proper way to go. I think the program, as others have noted, speaks for itself. It has done a great deal over the years, and it has served those objectives that we think are important, both here at home, as well as abroad.

CONCLUSION

So I would urge this committee and the Congress generally, to proceed carefully as you review this law, and there are many of us who are very eager and willing to be helpful and provide information.

Senator DASCHLE. Thank you, Mr. Shaughnessy.

[The prepared statement of Mr. Shaughnessy follows:]

Testimony of
DANIEL E. SHAUGHNESSY, PRESIDENT
EXPORT PROCESSING INDUSTRY COALITION
Before The
SENATE COMMITTEE ON AGRICULTURE
NUTRITION AND FORESTRY
November 7, 1989

Distinguished Chairman and Members of the Committee:

I am Daniel E. Shaughnessy, President of the Export Processing Industry Coalition - EPIC.

EPIC is a coalition of agriculture industry associations engaged in processing farm products - the Corn Refiners Association, the Millers' National Federation, the National Oilseed Processors Association - and ten major AFL-CIO unions whose workers are engaged in producing these products. EPIC emphasizes the importance of exports of processed, value-added agricultural products not only to the American farmer, but also, to our workers and businesses and to the nation as a whole due to the economic activity generated in our cities and rural areas.

We strongly support the Food for Peace program and ask that the Congress continue the law basically the way it is.
PL 480 has been a highly successful program for 35 years. It has fed hungry people. It has promoted U.S. agricultural exports. It has spurred development in poor countries. It has served U.S. foreign policy interests in peace.

Because it has served all these interests, it has enjoyed widespread support from agriculture and related businesses, from organized labor, from the voluntary agency community engaged in humanitarian activities, and from others. Congress has responded to this broad support and regularly approves PL 480 appropriations in the full amount requested in the President's budget, or more.

EPIC has been and continues to be a strong supporter of the multiple purposes of this program. It provides both food assistance abroad and is a major market for processed products. Such products shipped abroad under Titles I/III and II not only provide a more nutritious component for the diets of the recipients in poor countries, but also their production generates jobs for tens of thousands of American workers.

We also see long term market development for U.S. products in the developing world being dependent on the ability of developing countries to purchase them. The more their incomes grow, the more they will be able to purchase from the United States. This is why PL 480's greatest value from a market development standpoint is as an instrument for general economic development in the less affluent nations.

PL 480 is also an immediate marketing tool, as provided in the existing law. We strongly support that concept, but not to the extent of unbalancing the overall program or risking its broad support. We look to active USDA use of its many export programs for more immediate sales gains during the life of the farm bill and we will be making legislative suggestions in that regard.

With particular reference to PL 480, EPIC reaffirms its support for the minimum and subminimum tonnage requirements that Congress adopted in 1985 for Title II of PL 480 at the request of private voluntary agencies. These minimums are needed to assure continuing, dependable supplies for their humanitarian projects overseas and to meet disasters. The dependability from the minimums also allows suppliers to offer competitive prices on PL 480 purchases, due to the greater opportunity for planning raw material acquisition and delivery.

Equally important is the requirement that at least 75 percent of the Title II subminimum be in the form of processed, fortified and bagged products. This requirement is essential to assure a reasonable level of nutrition in the humanitarian feeding programs administered by private voluntary agencies and the World Food Program.

Having said that PL 480 as a law does not need much change at this point - it already contains ample authorities - I do not want to imply that EPIC is satisfied with PL 480's <u>implementation</u>. To the contrary, execution of PL 480's provisions leaves a great deal to be desired. To take a simple example: Sec. 408(a) requires that by February 15 of each year, Congress receives an annual report on PL 480 activities for the preceding fiscal year. When did you last receive such a report and what year was it for?

One of our problems with PL 480 implementation has been with the Title II minimums. The tonnage mandates are absolutely clear in the law. Yet the year hardly passes but that we get reports of slippage in meeting them, most of them true. So we

have to call on Administration officials, and sometimes Members of Congress, to try to get the bureaucracy energized to carry out what is plainly set forth in the statute. We regret that it seems to take such an extra effort to persuade administrators to actively administer this important provision.

Another recurring problem has been delays in the signing of Title I agreements. Failure to have Title I agreements ready early in the fiscal year leads to inefficiencies and excessive concentration of Title I procurement and shipments as the year-end approaches. We suggest that USDA, which chairs the Food Aid Subcommittee, be authorized to set deadlines for Title I approvals to facilitate orderly and efficient Title I implementation.

We also wonder if complaints about the Food Aid Subcommittee should not be more properly addressed to bureaucracies in its member agencies. In our experience with Title II minimums, we do not find the Subcommittee to be causing delays. If proposals are moving too slowly, the Chairman can, as we have suggested, set deadlines. If Subcommittee participants are over-extending, they can be restricted to the roles assigned to their agencies.

I will not take the Committee's time at this point with a litany of procedural excesses, delays, and unresponsiveness to operational problems encountered in PL 480 programs. Everybody seems to agree - including the Executive Branch - that processes need to be simplified, implementation speeded up, and specific problems addressed more promptly.

In sum, EPIC believes that U.S. food aid continues to serve a variety of objectives successfully. The PL 480 statute should be continued basically as it is and strongly supported. At the same time, we urge greater attention to improvements and flexibility in its implementation.

Thank you.

Senator DASCHLE. Steve McCoy.

STATEMENT OF STEVEN A. McCOY, PRESIDENT, NORTH AMERICAN EXPORT GRAIN ASSOCIATION, INC., WASHINGTON, DC

Mr. McCOY. Senator, thank you for the opportunity to come. As if you hadn't enough advice today, I have yet another report for you. This is an excellent report, I should say. [Laughter.]

Senator DASCHLE. I suppose you wrote it. [Laughter.]

INTRODUCTION

Mr. McCOY. Well, I had a hand, as did many other organizations. Several months ago, or about a year ago, North American Export Grain Association (NAEGA), together with the American Soybean Association, Millers National Federation, National Association of Wheat Growers, Rice Millers Association, the U.S. Feed Grains Councils, and U.S. Wheat Associates decided to put together an ad hoc private sector committee to begin the process of developing our recommendations, judging the need for change in the Public Law 480 program and anticipating the excellent attention this issue is getting from the committee.

REPORT

The results of our report now are available, and it is attached to my prepared testimony.

I will summarize some of it, but I would just want to say briefly, to begin here, that we have heard a lot of different discussions today about the various kinds of issues that are involved in this program. Owen has talked about the humanitarian aspects of the program. The PVO's certainly talked about that or the economic development aspects of the program. And the State Department has been absent, so we haven't had an opportunity to talk about foreign policy, which frankly gets more talking about than almost all of the other objectives combined in the program, in reality.

MARKET DEVELOPMENT COMPONENT OF THE PROGRAM

Our purpose here is to talk about the market development component of the program. We believe that the Public Law 480 program has an important role to play in developing markets for U.S. commodities. We further believe that the resources available to Public Law 480, to the title I program particularly, which is best suited for that purpose, are strained to capacity such that now the title I program basically inadequately serves as the messenger for a whole host of different kinds of priorities.

I think somewhere in here we talk, for example, we say that as far as the title I program is concerned, we have attempted to force a foreign policy and economic development camel through the eye of the title I needle. And this is basically what we are doing. We are taking a whole host of opposed or different objectives and trying to funnel it through a very limited resource base in order to achieve some lasting benefits.

TARGET RESOURCES

Our view within the agricultural sector is to target resources but to do it more appropriately by taking the strengths of the programs as titles and applying those to specific undertakings. In reviewing this, for example, we would argue that the title I program, we would say that there is room to achieve all our national objectives in food aid; however, not all of these objectives can be served by the title I program. Title II should be reconsidered in light of its grant basis as a means to leverage economic development and policy reform. Its humanitarian component should be allowed to continue unimpaired. The title III program should also be examined to ensure it better serves objectives for which it was established.

But looking at title I then, there is a series of practical steps we think that should be taken, which is not different from some of the other advice you have gotten today. And I will be very brief on it.

First of all, we believe that title I should be reoriented to better achieve market development objectives. Other U.S. objectives in food aid may be better served by other programs other than title I. Targeting title I on market development presents our best hope for maximizing both our own interests and the development interests of foreign countries such as can be usefully served through the medium of concessional food aid sales.

U.S. and foreign currency proceeds from the sale of title I commodities should be better programmed to support direct market development activities and provide more direct assistance to private sector agricultural commercial development in Third World countries. These funds should be made available to the market development cooperator organizations. And the benefits of title I concessionality should be allowed to be reaped by the private sector in the recipient countries, not by the governments who, in many cases, are stifling private sector initiative through reliance on heavy-handed government sector-oriented policies.

We need more flexible terms in the title I program to allow staggering of credit terms consistent with the recipient's ability to repay and promote graduation of countries up the scale, concessionality to commercial sales.

Title I should be better coordinated with other agricultural trade programs, including the GSM programs, cooperative programs, et cetera.

Finally, efforts should be undertaken to provide for multiyear programming.

CONCLUSION

In concluding, the kinds of recommendations that we have made we believe can only be undertaken if the administrative responsibility for the title I program is shifted to the Department of Agriculture. The Department of Agriculture is the best agency to administer these kinds of programs. They have the best expertise in terms of the commodities that are utilized. They have the best relationship with the commercial sector in the societies that we are attempting to contact. They have the best faith and confidence of the agricultural community, certainly.

We also need to change the interagency process, and we need to look at some reforms within the USDA process.

But these are all suggestions that are included in my prepared testimony, so I welcome your review of that.

Senator DASCHLE. Thank you, Steve.

[The prepared statement and report, Refocusing Public Law 480 on Market Development of Mr. McCoy follow:]

North American Export Grain
Association Incorporated

Statement of

Steven A. McCoy
President
NORTH AMERICAN EXPORT GRAIN ASSOCIATION

Before a Hearing on Food for Peace

Senate Agriculture, Nutrition and Forestry Committee
November 7, 1989
Washington D.C.

Introduction

It is a pleasure to appear before your Committee today on the issue of international food assistance. I appear as a witness for the North American Export Grain Association (NAEGA) -- the national organization of U.S. grain and oilseeds exporting companies and cooperatives -- and in my capacity as spokesman for the Ad Hoc Private Sector Committee on Agricultural Trade and Foreign Assistance, a private sector study group founded late last year to review food aid programs and recommend needed changes in U.S. food aid policy.

The Ad Hoc Committee -- comprising representatives of NAEGA, the American Soybean Association, Millers National Federation, National Association of Wheat Growers, Rice Millers Association, U.S. Feed Grains Council and U.S. Wheat Associates -- has worked diligently this year to promote dialogue on food aid issues with U.S. government officials and responsible private sector leaders.

We have taken as our mandate to recommend to Congress and the Administration changes we feel would benefit the U.S. international food aid effort, including, but not limited to, streamlining the food aid delivery system, maximizing scarce food aid resources and reorientation of U.S. food aid policy to achieve more appropriate and more lasting U.S. trade and foreign economic development objectives.

As agriculturalists -- and as organizations which have worked in behalf of U.S. farmers to develop foreign markets for U.S. agricultural products -- the thrust of our recommendations has inevitably involved the achievement of greater U.S. agricultural trade benefits through the medium of food aid. This, in our view remains the single most important priority yet to be adequately served by current food aid programs and policies. However, we have throughout our study also remained mindful of the other objectives currently served by U.S. food aid, including foreign policy goals, humanitarian needs and foreign economic development.

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Report Findings

The results of our study are presented to you today. A copy of our report **Refocusing PL. 480 On Market Development** is attached to this testimony. We commend the report to your attention as you proceed with your considerable responsibilities in food aid matters.

The recommendations contained in the Ad Hoc Committee report are limited to the Title I PL. 480 program. We make no specific recommendations regarding Title II or III, Section 416 of the 1949 Agricultural Act, or other food aid provisions of law. However, we note that some of our report findings may have application to programs other than Title I PL. 480. It is the Committee's intent to issue further reports, at some future date, on matters involving the Title III, Section 108, and other food aid related programs.

Administrative Problems

Our review of Title I reveals several inter-related administrative problems attending the program, particularly:

(1) significant delays in developing and implementing Title I agreements;

(2) unnecessarily complex and burdensome administrative requirements applied to programming of commodities; and

(3) unwieldy, time-consuming, sometimes shallow (or even counter-productive) self help provisions applied to specific country contexts.

The consequences of these problems are manifest in the annual food aid programming cycle. Inevitably, delays in developing agreements lead to the backlogging of agreements into late in the fiscal year. Food aid shipments are prevented or delayed. Commodities may not get to the country where they are needed, when they are needed, and in the quantities needed.

We cite instances in our report where delays have resulted in food aid shipments to countries during harvest, creating potential for disruption of internal marketing and disincentives to purchases of U.S. commodities (see pages 6 and 7). Other instances could easily be cited. These are not new problems. Indeed, they are problems that have plagued the Title I program since its inception. They are problems, however, which could be remedied if Congress or the Administration were to act on some or all of the recommendations we make here today.

Source of Problems

The source of the problems cited above is not difficult to isolate. In general, they result from conflicts within the program between differing agency objectives and the effect of the legislative requirement that Title I serve too many masters.

The key to understanding the Title I program is the food aid inter-agency process. It is within, and by, that process that food aid commodities are committed for export and countries selected to receive food aid benefits.

Agencies represented in the inter-agency process -- Agriculture, State, USAID, OMB and Treasury -- seek to maximize their individual objectives in food aid which are currently, for USDA, movement of commodities; for State, enhancement of foreign policy; for USAID, promotion of "small scale" economic development and/or policy reform; and for other agencies, budgetary and management control. The inter-agency process is intended to find compromise between the competing agendas of different agencies. In fact, the process results in a hierarchy, not a levelling, of competing agency agendas.

Foreign policy objectives are, as always, served first and served best in the food aid inter-agency process. Countries important to U.S. foreign policy achieve special status, regardless of their true food aid needs and the needs of other food aid eligible countries; and at risk to the graduation of some countries from food aid to more direct commercial purchases.

Also served in the mix -- at a cost of delays in programming commodities -- are USAID's interest in such programs promoting small scale economic development and policy reform. Time consumed in negotiating such programs with foreign governments -- however laudatory they may be -- is time lost for shipment of much-needed commodities overseas. The dual impact of State and USAID objectives in the program is to create a static, inflexible programming environment, in which some countries interests may be under-served and others served beyond their obvious need.

Largely absent from the program is any significant concern for U.S. agricultural market development, this despite the legislated requirement that the program serve this purpose. Little attention is given by State or USAID to the trade ramifications of food aid. Indeed, the agendas of these agencies may be in conflict with the goal of expanded U.S. agricultural trade, as was evident in the decision by USAID to assist Egypt in the construction of grain receiving facilities at Safaga, Egypt, through which Australian wheat shipments to Egypt have become competitive. State and USAID have come to rely on Title I as a general purpose economic assistance program without regard to other objectives that the program was designed to serve. Consequently, the program fails to

operate effectively as a means to promote U.S. commerce, even as it sometime fails, in our view, to achieve the goal of promoting lasting, meaningful economic development in the countries which receive such aid.

Maximizing the Food Aid Dollar

The international environment facing the Title I program is far different today than it was twenty or thirty years ago. Put simply, the resources dedicated to Title I -- except perhaps in a few large recipient countries -- possess neither the sufficient "carrot" nor "stick" to leverage the depth of policy reform nor scale of economic development needed to place most developing countries on the road to self-reliant growth in a competitive global economy.

In the current budgetary environment, concentration of Title I resources in a few countries important to U.S. foreign policy has inevitably strained remaining resources applied to the majority of aid recipient countries. In the vast majority of cases, we are left with little "bang" from the food aid "buck".

This problem is further exacerbated by the myriad economic development objectives Title I is required to serve. With few funds -- and many economic development goals -- we end up shortchanging both our own vital interests and the purposes those interests are intended to serve in developing countries. We are lulled by overall spending levels for PL. 480 into a false sense of confidence that we are having the intended impact in every country served by such programs. In fact, the actual impact on those countries may be minimal. This is particularly true for countries receiving far greater assistance from other donor nations such as EC countries and Japan, countries, I might add, that have no compunction, as we do, in utilizing foreign assistance to advance trade benefits for themselves.

Faced with strained U.S. foreign assistance budgets, we have, over the years, collapsed the scope of our economic development agenda from the grand scale to the "small scale". We have met the challenge of scarce funding not by targeting resources but by multiplying often unrelated "small scale" development activities. As regular cash funding for development has declined for many countries in recent years -- a legacy of "earmarks" to a few -- Title I has become a more important source of funding to achieve economic development objectives which might be better served by direct cash assistance or U.S.- funded technical assistance. We have attempted to force a foreign policy and economic development camel through the eye of the Title I needle. This has meant that some food aid objectives have been set aside in favor of others. In no single instance is this more true than in the case of U.S. agricultural foreign market development.

What is Market Development?

Your Committee is only too well aware of the legislated requirement that PL.480 serve direct U.S. agricultural foreign market development objectives. Service of such objectives -- together with service of foreign policy, humanitarian and economic development objectives -- was among the four basic founding criteria established by the original authors of the PL. 480 law some thirty five years ago. Over the years, Congress has acted on many occasions to further promote U.S. agricultural market development through the medium of food aid, most recently in Section 4311 of the 1988 Trade Act. Nevertheless, the market development component of food aid has historically been eroded, not enhanced, as might have been intended or desired.

What is market development? As a general rule, the term market development applies to the various steps taken by private groups and the U.S. government to assist the introduction of U.S. commodities in given markets with an eye to the long term goal of establishing regular commercial demand. More specifically, market development also covers a gamut of functions and activities now undertaken by U.S. foreign market development cooperator organizations to enhance such demand. Such activities include development of user industries, such as livestock and processing industries; promotion of foreign agricultural commercial private sector industry development; and demonstration projects and information services promoting better and more efficient use of food and fiber products, better storage, distribution and sale of agricultural products, and other technical assistance.

The Title I program currently plays only an indirect role in supporting worldwide U.S. agricultural market development, this despite the fact that the program could be well adapted to serve that objective, while also maximizing immediate, lasting, realizable economic development in Third World countries.

Market development is economic development. Market development activities are uniquely suited to the promotion of private sector agriculture commercial growth in food aid recipient countries, such as is now so evidently a goal of U.S. policy. Failing to target Title I on market development we have failed to target our best, most immediate, most effective means to leverage economic development in food aid recipient countries. Beyond that, we also fail to build in vital U.S. commercial interests in such countries; fail to benefit from coordination of food aid with other U.S. government commercial assistance; and fail to serve our own strategic purposes in a competitive global trading environment. Hoping to assist others, we end up dis-serving ourselves, and them, in the bargain.

Why Title I?

It is vital, at the outset, that we recognize the significance of Title I for U.S. agriculture.

Title I sales of commodities, as a proportion of total U.S. Sales, have declined in recent years. However, this phenomenon -- a reflection of enhanced worldwide U.S. competitiveness -- makes the program no less important to U.S. agriculture today than it was thirty five years ago.

Title I still comprises a substantial volume of U.S. agricultural exports. It is still an important source of demand for U.S. commodities. It still plays a critical role in supporting U.S. farm income. No other sector of the U.S. economy -- nor other interest represented by U.S. government -- has as immediate and as direct a stake in the effectiveness and success of the Title I program as U.S. agriculture. In a similar vein, no other sector stands to lose as much or as greatly, if the Title I program fails to serve its purposes in promoting lasting, meaningful development, including market development, in food aid recipient countries.

The increasingly competitive trade environment we face in agriculture has placed a renewed burden on the United States to seek out new markets. Increasingly, our efforts in this area have been directed towards the developing world. Regardless of other U.S. government programs that exist to enhance or assist commercial sales, only Title I exists to promote such sales solely to developing countries. Only Title I offers the concessional credit terms necessary to begin the process of market building in such countries.

Applying a greater market development orientation to Title I, we can serve ourselves and the worldwide economic development process. Better coordinating Title I with other U.S. government credit and enhancement programs -- and with activities of U.S. foreign market development cooperator organizations -- we can place developing countries on a surer footing towards realization of agricultural self-reliance.

This process can only come about through rationalizing our current priorities in food aid and better targeting of our food aid resources to achieve market development objectives. We should continue, of course, to promote other avenues of development. However, these objectives may be better supported by programs other than Title I. General foreign assistance may be better provided out of general foreign assistance funds. Economic development priorities might be better served through increases in appropriations for technical or cash-transfer assistance; or, perhaps, through greater reliance on private and voluntary efforts supported by Title II, or by direct grants from the U.S. government.

There is room to achieve all our different national objectives in food aid. However, not all of these objectives can be served by the Title I program. Title II should be reconsidered in light of its grant-basis as a means to leverage economic development and policy reform. Its humanitarian component should be allowed to continue unimpaired. The Title III program should also be re-examined to ensure it better serves objectives for which it was established. The opportunity to do all these things rests before your committee today.

Recommendations

In summary, then -- and consistent with the proposals contained in our report -- we make the following recommendations:

(1) **Title I should be re-oriented to better achieve market development objectives.** Other U.S. objectives in food aid may be better served by programs other than Title I. Targeting Title I on market development presents our best hope for maximizing both our own interests and the development interests of foreign countries, such as can be usefully served through the medium of concessional food aid sales.

(2) **U.S. and foreign currency proceeds from the sale of Title I commodities should be better programmed to support direct market development activities and provide more direct assistance to private sector agricultural commercial development in Third World countries.** These proceeds should be made available to U.S. agricultural market development organizations to support their activities. The benefits of Title I concessionality should be allowed to be reaped by private sector commercial interests in Third World countries, not only by the governments of those countries, who, in many cases, starve private sector growth through their continued reliance on heavy-handed government sector-oriented policies and commitment to para-statal or statal concepts of trade and development.

(3) **More flexible terms should be built into the Title I program to allow the staggering of credit terms consistent with a foreign country's ability to repay; and to promote graduation of countries up the scale of concessionality from the most concessional credit terms now offered to commercial or near commercial terms.** Flexibility should be exercised in determining U.S., convertible and nonconvertible currency components of repayments to ease terms for developing countries while

also providing support for necessary U.S.- and foreign-based activities underpinning direct market development activities.

(4) **Title I should be better coordinated with other U.S. agricultural trade assistance and promotions programs, including GSM loan programs, U.S. foreign market development cooperator programs and, potentially, the export enhancement program (EEP).** Better designing the fit between such programs and Title I would enable even greater flexibility to respond to real and unmet demand in developing countries, and assist the process of graduating countries into commercial sales.

Finally, efforts should be undertaken to provide for multi-year programming of commodities in the interest of eliminating many of the delays and administrative burdens associated with the program. End-of-year logjams in the Title I program cannot be adequately addressed without advancing the time frame of Title I agreements from the current fiscal year. Multi-year programming would also provide a better horizon of opportunities to serve programming objectives, which, invariably, require commitments of time greater than one year to bring into fruition.

Lead Agency Role for USDA

The kinds of improvements we seek in the Title I programs can, in our view, only be undertaken by assigning a greater leadership role for Title I to the U.S. Department of Agriculture. Indeed, such an enhanced leadership role for USDA was earlier recommended by the National Commission on Agricultural Trade and Export Policy (1985-87), a Congressionally-appointed advisory body on which members of your Committee served.

As the agency charged with supporting market development and promoting U.S. sales of agricultural commodities, USDA is, among the various agencies associated with the program, uniquely qualified to administer the Title I program. Among the agencies, USDA has the best knowledge of and familiarity with the foreign commercial agricultural private sector which we believe Title I should better serve. USDA currently operates other credit programs and enhancements with which Title I could be and should be better coordinated. USDA has the closest relationship with U.S. foreign market development organizations who can best carry out the private function of market development and promotion. Finally, among the agencies, it has the fullest confidence of the U.S. agricultural community, which, we have noted, has the critical stake in the program.

Changes Needed in the Inter Agency Process

The recommendations we propose do not involve dismemberment of the current PL. 480 structure, as some critics might suggest: we propose simply a re-orientation of priorities within that structure. We do not propose reclassifying Title I from its current status as a food aid program to some new status as a market promotion tool: we seek simply an enhanced priority for market promotion and market development within the overall PL. 480 structure through the medium of the Title I program.

However, changes will be necessary in the current structure of PL. 480 to achieve the benefits herein suggested. **The current inter-agency process involving Title I will require adjustment.** The current process, while assigning USDA titular leadership, does not well serve the U.S. agricultural market development objective. Streamlining that process, perhaps through merging Title I with the inter-agency mechanism currently applied to GSM credits, would be an obvious improvement. The current Title I inter-agency process results in the types of delays, inflexibilities, administrative burdens, and misidentification of priorities which, we have argued, have hamstring the effectiveness of Title I as a market promotion and economic development tool. USDA needs a freer hand with the program if we are to realize the substantial benefits that can accrue from a more market development-oriented approach to food aid assistance.

Changes Needed in USDA

USDA will require new authority to carry out the program we recommend. It will require instruction by Congress to change the emphasis of its current Title I role away from the simple movement of commodities towards effective use of those commodities overseas to backstop market development activities. New resources of funds and personnel may be needed to enable USDA to undertake its new role. However, those needs may be modest. Currently, USDA carries out its responsibilities with respect to the GSM program largely through reliance on Washington-based personnel. A similar model would, in our view, work well in the case of Title I.

Closing Comments

The recommendations the Ad Hoc Committee places before you today are made in good faith and without prejudices to the many objectives currently served by PL. 480. Our interest is in streamlining the food aid delivery system, maximizing scarce food aid resources and reorganizing food aid policy to achieve appropriate and lasting results benefiting U.S. trade and foreign economic development objectives.

We are pleased to be engaged in this dialogue on international food assistance. We look forward to working with

your Committee to improve the current food aid system. We, of course, stand ready to provide you with every thing we can, as you approach the task of reviewing such programs as a prelude to legislative action.

My testimony today has been limited to Title I. However, I would welcome any questions you might have regarding other areas of international food assistance.

Thank you.

North American Export Grain
Association Incorporated

REFOCUSING PL480 ON MARKET DEVELOPMENT

A Report of the Ad Hoc Private Sector Committee
on A icultural Trade and Foreign Assistance*
Washington, D.C.
November 1989

*The Ad Hoc Committee is composed of representatives of the American Soybean Association (ASA), Millers National Federation (MNF), National Association of Wheat Growers (NAWG), North American Export Grain Association (NAEGA), U.S. Feed Grains Council (USFGC) and U.S. Wheat Associates.

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REFOCUSING PL480 ON MARKET DEVELOPMENT

Executive Summary

The Agricultural Trade Development and Assistance Act of 1954, commonly known as PL480, has historically served three goals: (1) to develop and expand export markets for U.S. agricultural commodities; (2) to combat hunger and malnutrition in developing countries; and (3) to promote agricultural and economic development in poorer nations.

In the beginning, Title I of PL480 was strongly oriented toward the long-term development of markets for U.S. agricultural commodities in developing countries. During the 1950s, 1960s, and most of the 1970s the program helped stimulate agricultural and economic development in a number of nations, many of whom emerged as good commercial markets for U.S. farm products.

However, starting in the late 1970s, primary responsibility for Title I began to shift from the U.S. Department of Agriculture (USDA) to the U.S. Agency for International Development (USAID) and the program has been transformed from one of market development to one that is primarily a food aid and general economic assistance program. This shift occurred for a variety of reasons: USDA's preoccupation with commercial exports and loss of interest in long-term market development; and AID's willingness to use Title I as a general economic assistance program.

There is strong private sector agricultural support for Title I again becoming primarily a market development program. This report addresses that issue. The authors of this report believe Title I should, legislatively or by administrative action, be made to become more market development-oriented. Titles II and III should continue to be used to meet basic humanitarian food aid commitments. Title III should be re-examined in the light of its potential applications in the future for fostering U.S. agricultural trade and foreign economic development. It is recognized that the poorest of the developing countries will continue to receive Title I and may, at times, even need expanded Title II assistance.

The recognition of a stronger market development focus for Title I is grounded in the following:

- The clear understanding that expanding agricultural exports is essential to maintaining a prosperous agricultural sector and reducing both the trade and budget deficits.

- Developing countries represent good potential growth markets for U.S. agricultural products.

- Food assistance can be used to increase food availability in developing countries and to stimulate their own agricultural production and economic growth.

However, improvements in the program are recommended including:

- Greater matching of Title I with other programs resources. Title I is one of a variety of programs available to achieve market development and improved competitiveness in export markets. Other programs include: intermediate-and short-term credits and export subsidies.

- Assignment of a lead agency role over Title I to USDA. USDA should have lead responsibility for Title I to coordinate it with other export programs and to improve its management. Delays in developing Title I agreements and unnecessary administrative complexities have undermined the program's effectiveness.

- Finally, adjustment of Title I terms to correspond more closely with recipients' ability to pay would improve the cost-effectiveness of the program and allow program resources to be shifted over time away from countries that least need them to countries that need them the most.

Because of the complex nature of PL480, the program has heretofore operated through an interagency committee representing USDA, State, Treasury, and OMB. Until the late 1970s, however, USDA had primary responsibility for Title I because of the program's strong market development focus and the need to coordinate programming with domestic market considerations and those in recipient countries. USDA also had considerable expertise in evaluating agricultural performance in developing countries.

Primary responsibility for the Title I program should be quickly shifted back to USDA by executive order or by legislation. Our recommendations regarding how this can be done are contained in the pages that follow. At the same time, USDA should strengthen its staff capabilities to run the program effectively as a market development tool.

Congress may also want to re-evaluate the program. It has become unnecessarily complex and there is scope to simplify it. Also, it would be very useful for Congress to stress the importance of Title I as a long-term market development program for U.S. agricultural exports while, at the same time, making it clear that Title II should be the primary mechanism for feeding people. Recommendations regarding the Title III program will follow in a

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Terms of Reference

PL 480 Titles

Title I - Concessional credit sales program, with a grace period of up to 10 years and repayment over 30 years. Shorter lending packages are also provided. Interest rates have been 2 percent during the grace period and 3 percent during repayment of the principal.

Title II - Grant feeding and direct relief programs carried out by private U.S. voluntary organizations or on a government-to-government basis.

Title III - Carried out on the same terms as part of Title I except that recipients can be given loan forgiveness if an acceptable long-term development program is agreed upon. In practice this Title has proved too cumbersome to be very useful.

I. Overview

The Agricultural Trade Development and Assistance Act of 1954, commonly known as PL480, has historically had three goals.[1] The first has been to develop and expand export markets for U.S. agricultural commodities, and these activities are covered under Title I of the Act. The second has been to combat hunger and malnutrition, and authorities to do so are contained in Title II. Finally, PL480 has increasingly emphasized economic development, particularly in the agricultural sector, and these activities are specifically covered by Title III but are also supported by Titles I and II of the Act.

This paper focuses specifically on Title I and its value as a market development tool to help build commercial markets for U.S. agricultural products. Growth in agricultural exports is essential for maintaining a healthy and growing agricultural sector including farmers and the businesses that serve them, for reducing the trade deficit, and for reducing government outlays on commodity programs in order to help eliminate the Federal budget deficit.

The importance of increasing exports was clearly recognized in the Food Security Act of 1985. In addition to lowering loan levels and market prices markedly in order to become more competitive, the Act emphasized greater use of credit and export programs, and provided money to strengthen market development activities (e.g., the Targeted Export Assistance (TEA) Program). The Act also added Section 108 to Title I of PL480 which is intended to strengthen the role of private enterprises in developing countries and to expand the resources available "for the development of new markets for United States agricultural commodities." Unfortunately, the program has remained largely under-utilized because of uncertainty as to who is in charge. Legislation is needed to clarify the situation.

The National Commission on Agricultural Trade and Export Policy (1985-87) strongly emphasized the importance of market development activities and specifically recommended that food and foreign assistance programs should be used more effectively to

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[1]/ Agricultural Trade Development and Assistance of 1984 -- Public Law 480, 83rd Congress, 2nd Session, July 10, 1984 and Agricultural Trade Development and Assistance Act of 1954, as Amended Through December 31, 1987, compiled by Special Programs Branch, Export Credit Division, U.S. Department of Agriculture, Washington, D.C. 20250.

serve market development interests.[2] The Commission stated that "the Congress and the President should establish it to be the policy of the United States government to better utilize programs of the U.S. government to promote the development of markets for U.S. agricultural commodities and value-added products." It recommended, among other things, the following:

- Explicit requirements be put into effect for ensure that food aid and foreign economic assistance programs serve U.S. agricultural market development interests.

- The Secretary of Agriculture be assigned a greater leadership role in food aid and in foreign economic assistance matters.

- Full use be given to all food aid programs currently authorized by law.

- Safeguards be put in place to ensure that U.S. foreign agricultural economic assistance programs do not run counter to U.S. agricultural trade interests.

The 1988 Trade Act reiterated some of the same objectives by stating in Section 4311, Food Aid and Market Development: "It is the policy of the United States to use food aid and agriculturally related foreign economic programs more effectively to develop markets for United States agricultural commodities and products."

Why focus on Title I of PL480? The answer is simple. This program, which historically operated with a strong market development focus, has in recent years been transformed into a food aid and economic assistance activity with primary responsibility for it having shifted from the U.S. Department of Agriculture (USDA) to the U.S. Agency for International Development (AID). These developments run counter to U.S. agricultural interests and to the historical thrust of PL480 as intended by the authors of that Act. The administration of Title I has been put in the hands of foreign policy people whose primary clients are foreign governments and not U.S. agricultural interests.

It is time to return Title I to what it was originally intended to be -- primarily a long-term agricultural market development program -- and to give the Secretary of Agriculture major responsibility for its operations as the National Commission on Agricultural Trade and Export Policy has recommended. Doing this will have several salutary effects on American agriculture and

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[2]/ New Realities: Toward a Program of Effective Competition, The National Commission on Agricultural Trade and Export Policy, Final Report to the President and Congress, Vol. II, July 1986, p.255.

also be in the long-term development interests of recipient countries.

- It would permit USDA to take a more unified approach to long-term market development using all the programs available to it.

- Packages of export assistance tailored to fit the needs of individual developing countries could be developed and these could include combinations of Title I, short- and intermediate-term credits, and export subsidies (EEP).

- Programming and shipments of commodities under Title I could be made much more timely with respect to U.S. market needs and those of recipient countries.

- Payment terms of Title I could be adjusted over time to match recipients' ability to pay. As more developing countries grow, Title I could be phased down in favor of commercial credit assistance, and program resources could be redeployed to those countries needing Title I concessional financing help the most.

- Current provisions in PL480 to generate market development resources (Sections 104 and 108) could be used more aggressively on an ability-to-pay basis to expand funding for market development activities. Program management and operations objectives need clarification in order to increase the programs' effectiveness.

- Finally, a variable mix of commodities and funding options could be offered to accommodate both the longer-term market development potential for U.S. commodities and the unique needs of particular recipient nations. The effect would be a custom-tailored program which might evolve with the economic development of the recipient country.

II. Background

In the beginning, Title I of PL480 was designed to be mainly a market development program, consistent with the foreign policy interests of the United States. Other titles of the law were designed to provide humanitarian food aid and economic development assistance.

The original legislation, the Agricultural Trade Development and Assistance Act of 1954, was clear on this point. The intent of Congress was "to expand international trade among the United States and friendly nations,...to promote the economic stability of American agriculture and the national welfare, to make maximum efficient use of surplus agricultural commodities in furtherance of the foreign policy of the United States, and to stimulate and facilitate the expansion of foreign trade in agricultural commodities produced in the United States by providing a means whereby surplus agricultural commodities in excess of the usual marketings of such commodities may be sold through private trade channels and foreign currencies accepted in payment therefor."

During the 1950s and 1960s when U.S. agriculture had substantial excess production capacity reflected in either large stocks of basic commodities or acreage idled under commodity programs, there was a strong desire to use these surpluses to promote market and economic development in the poor countries of the world. But there was also a recognition that these activities should be in the interest of U.S. foreign policy and should not disrupt normal world trade. An interagency committee framework was established to deal with these concerns. USDA had primary responsibility for the management of the Title I program in the interagency process with inputs from State, AID, Treasury, and OMB, to ensure (a) that the program met the foreign interest of the United States, (b) that PL480 commodities did not replace normal commercial sales by the United States and other exporters, (c) that funds generated by the program (both local currencies and dollars) were appropriately managed and accounted for, and (d) that resources generated were effectively used to promote economic and market development activities in recipient and other countries.

Early on it was recognized that USDA had to have primary responsibility for managing Title I for two important reasons. First, it was essential that the sales of commodities be made in a way that resulted in orderly marketing and that USDA would factor this into their domestic program decisions to ensure an adequate supply of commodities. Second, it was important that recipient countries receive commodities in the amounts needed and at the proper time. Commodity shipments had to be coordinated with recipient country crop production schedules, availability of storage and transportation, and to meet special market development

program needs. USDA's foreign attaches and Washington-based staff were best suited to manage the development of country programs and the orderly movement of commodities and they performed these functions very well.

It was also recognized that the credit terms of Title I were very generous to recipient countries and that all but the poorest countries could afford to make some initial payments in hard currencies. PL480 has always contained a provision (Section 104 of Title I) whereby recipient countries would be required by the Secretary of Agriculture to pay not less than 5 percent of the value of commodities received in dollars or other hard currencies and this money could be used to finance USDA's market development programs anywhere in the world. Throughout the 1950s and much of the 1960s, Title I generated the foreign currencies that were used to support agricultural market development activities by the USDA and cooperator organizations in Europe, Japan, and in other countries where PL480 did not operate.

Benefits to the United States

The importance of Title I to market development and U.S. foreign policy interests had become so well established that the program continued to operate even when the United States no longer had commodity surpluses such as in the mid-1970s. It was a hallmark of Title I that the program was phased out of certain countries when (a) they reached a level of development that did not require the highly generous (subsidized) terms of the program, (b) market development prospects did not justify continuing it, or (c) it was no longer in the foreign policy interest of the United States to continue the program. A number of developing countries were phased out of Title I and many went through a transition period toward increasingly less generous financial terms before the program was actually terminated. A number of previous recipients have emerged as some of the United States' best commercial customers.

As part of this transition process, it was recognized that recipient countries should take steps to improve their own agricultures, particularly food production. Beginning in the latter half of the 1960s, Title I programs required countries to undertake self-help measures that would improve agricultural performance and the efficiency of their agricultural sectors, and contribute to market development prospects for the United States. Self-help measures are still required in Title I agreements.

Unfortunately, self-help provisions have become unnecessarily detailed and oftentimes delay development of Title I agreements. Self-help measures should focus on a few critical long-term undertakings by recipients that would improve their agricultures and economies. These commitments need to be monitored to ensure that they are being carried out. But they should not become

operating impediments to ongoing Title I operations, or force agreements to be concentrated in the last quarter of the fiscal year. Neither should self-help measures be confused with self-sufficiency concepts that promote the production of crops that cannot be economically produced in recipient countries.

The United States did not want developing countries to become overly dependent on food aid and neglect their own agricultural potential. Furthermore, there was a growing recognition that agricultural development was essential to achieving good total economic growth since agriculture was the dominant part of developing country economies. With good economic growth, the demand for food generally out-stripped growth in domestic production, and markets for U.S. agricultural products increased. The experience with countries such as Japan, South Korea, and Taiwan reinforced this view and it remains valid today. Independent assessments of the role of agricultural development in developing countries confirm its value in developing export markets.

Recent Shortcomings

The approach to Title I which prevailed for over 20 years began to change in the late 1970s when USDA was looking at rapidly growing commercial sales and lost interest in PL480. Successive administrations have allowed Title I to shift from a market development program to one that has been increasingly viewed as a food aid and general economic assistance program. As this has occurred, primary responsibility for its management has shifted from USDA to AID. And, as AID's funding has been reduced over time, Title I has become relatively more important in AID's total set of economic assistance programs. There are now many people who argue that the Title I program is a captive of U.S. foreign policy interests that put the political interests of recipient countries ahead of those of U.S. agriculture. This is reflected in the high degree of disenchantment with the program's operations among U.S. agricultural producers and market development groups.

U.S. groups interested in market development have witnessed over the past 10-12 years the development of a number of counter-productive practices in the operation of Title I as primary responsibility shifted from USDA to AID. The scheduling of the development of Title I agreements and shipment of commodities all too often does not coincide with either orderly marketing of U.S. commodities or getting these commodities to recipient countries when they need them.[3] This is reflected in a tendency for

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[3]/ a) In recent years the United States has regularly provided PL480 wheat to Bolivia, but it is all shipped late in the fiscal year. Because of Bolivia's limited handling capacity, the wheat is piled on the harbor and only slowly moved inland for milling.

programming to take place near the end of each fiscal year rather than at the beginning of it. As a consequence, shipments of commodities do not always fit the period of the crop year when they would be most beneficial to U.S. producers. Also, developing countries are discouraged from making full use of Title I because commodity arrivals tend to coincide with their own harvests when they least need imports and are least well prepared to handle them. The corollary to this is that there is a tendency for Title I commodities not to be available when developing countries need them the most, and many nations are forced to buy commercially, all too often from U.S. competitors.

USDA also is now less able to develop export packages consisting of Title I, commercial credit, and export programs that maximize U.S. competitiveness in many developing country markets.

The foreign assistance focus has led to a number of other undesirable consequences. AID has promoted investments that have undermined U.S. agricultural exports. As the National Commission on Agricultural Trade and Export Policy points out, "U.S. wheat producers were directly hurt by AID development of grain facilities in Safaga, Egypt on the Red Sea, solely to facilitate the cheaper importation of large quantities of Australian wheat in competition with U.S. wheat landed in Alexandria on the Mediterranean."[4/] AID has also continued to promote the use of Title I in some countries beyond the point where it is beneficial to either the U.S. or to the recipient countries. The continued availability of cheap Title I commodities has deterred the development of healthy commercial markets by helping recipient countries keep commodity prices depressed and keeping commodity distribution in the hands of government agencies. Lower commodity prices discourage increases in domestic production and encourage their wasteful use. And, the private sector's role in processing and distribution is impeded. Finally, keeping PL480 going too long denies the United States opportunities for commercial sales which are far larger than the foreign assistance involved.

U.S. agricultural interests are being further undermined because local currencies that are being generated under Title I (Section 108) are being increasingly used to finance a variety of

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The result -- heavy losses from birds, rodents, and the weather. b) Some years ago, the United States provided PL480 food aid to Zambia, but it was shipped late in the fiscal year without regard to the country's own harvest schedule. A few years later a U.S. Wheat staff member visited Zambia and was confronted with the charge that the United States had severely hurt their producers by shipping PL480 commodities without regard to their harvest schedule.

[4/] p. 278

activities other than market development, and the use of these funds for market development purposes is being seriously squeezed by AID.[5]

Finally, the mix of commodities and countries programmed under Title I can be critical from a market development standpoint. For example, programming feed grains and protein feeds can assist the development of livestock, poultry, and modern feed industries. Doing more in the animal and feed market development area need not come at the expense of foods for human nutrition. Indeed, a custom-tailored mix of commodities should always be available to serve specific markets with unique characteristics.

With respect to countries in the mix, five countries received nearly half (47 percent) of the $950 million programmed for Title I purposes in FY 1986. While the programs carried out under Title I in these countries were not without merit, such programming reflected foreign policy priorities as much or more than market development potential.

From a market development standpoint, there are a number of questions that need to be examined with respect to the allocation of Title I resources.

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[5]/ U.S. Government agencies that use foreign currencies generated under Title I include USDA for foreign market development, Department of Commerce (National Bureau of Standards and the International Trade Administration), the Environmental Protection Agency, Health and Human Services (Alcohol, Drug Abuse, and Mental Health Administration, Centers for Disease Control, Food and Drug Administration, Health Resources and Services Administration, National Institutes of Health, National Center for Health Statistics, and the Office of Human Development Service), Department of the Interior (Fish and Wildlife Service and the National Park Service), Library of Congress, National Science Foundation, Overseas Private Investment Corporation, The Smithsonian Institute and the Department of State.

III. The Need to Reorient Title I Back to Market Development

It is important to understand that Title I terms are, by design, extremely generous from the standpoint of recipient countries. Three sets of terms are used. One is sales for dollar credits with up to a 20-year repayment period, a 2-year grace period for loan repayment, and a minimum interest rate of 2 percent during the grace period and 3 percent thereafter. The second set of terms provides up to a 40-year repayment period with a grace period of up to 10 years for loan repayment and the same minimum interest rates as under dollar credit sales. These loans are in terms of convertible currencies, i.e., for local currencies which eventually must be repaid in dollars. Finally some sales are made for local currencies which do not have to be repaid in dollars.

Title I Costs

The appropriate cost measure for Title I commodity sales is the discounted present value of the interest benefit provided to the recipient country. The discounted present value measures the cost of the sale to the United States. Excluding any downpayment requirement, a recipient does not have to pay for Title I commodities immediately. The U.S. government must borrow to finance Title I sales and the cost of these borrowings is also the interest rate on long-term treasury bonds. The interest rate on 10-30 year Treasury bonds is now about 9 percent.

The benefit to the recipient country may be more or less than the cost to the United States. It will be more to the extent that its borrowing costs are higher than those incurred by the U.S. Treasury. It will be less to the extent that the commodity being financed is available more cheaply from non-U.S. sources.

The value of current Title I sales is illustrated for both wheat and soybean oil using export prices of $4.50/bushel and $0.25/pound, respectively. Values are calculated for both dollar credit sales involving a 20-year repayment period. It is assumed that both sales involve minimum interest rates and the maximum allowable grace periods. The current market rate of interest on long-term U.S. Treasury bonds of 9 percent is used and a 6 percent annual rate of inflation is assumed to calculate discounted present values. This inflation rate implies a real interest rate of 3 percent.

As can be seen in the following table, Title I is a good value to recipient countries. In the case of wheat with a U.S. export price of $4.50/bushel, the recipient country pays only 56 percent of this value under a 20-year dollar credit sale or $2.50/bushel and only 23 percent or $1.04/bushel under a convertible currency

sale. The results are similar for the soybean sale example.

Discounted Present Value of PL480 Commodities

	Market Price	20-Year Dollar Credit Sale		40-Year Convertible Currency Sale	
		Buyer Share	USG Share	Buyer Share	USG Share
Wheat ($/bu)	4.50	2.51	1.99	1.04	3.46
Soybean Oil (cents/lb)	25.0	14.1	10.9	5.80	19.2

The cost of commodities to recipient countries in relation to export sales prices will vary according to the following factors:

- An increase in market interest rates relative to those charged under Title I agreements reduces the effective cost to recipients and increases the size of the benefit provided.

- Lower inflation rates result in larger benefits while higher rates result in lower benefits.

- An increase in interest rates charged under Title I above the minimum levels required by law increases the effective cost of commodities for recipients and reduces the level of U.S. assistance.

- Similarly, requiring initial cash payments or shortening either the grace or repayment periods increases the effective cost to recipients and reduces the assistance benefit provided by the United States.

Ability to Pay

Throughout most of the program's history, the United States adjusted the terms of Title I in relation to a country's ability to pay. Generally, the poorest countries received the most favorable terms and the less poor had to pay more through a combination of shorter repayment schedules, higher interest rates, and initial payments. At some point, Title I ceased to be available when countries achieved income levels that allowed them to buy commodities from the United States on either credit or commercial terms.

To illustrate the wide range in incomes of countries receiving Title I, we have listed FY1986 recipients by their 1985 level of

per capita gross national product (GNP) as reported by the World Bank. This information is contained in the next table.

Per Capita GNP (U.S. Dollars) of Title I Recipients During FY1986

Bangladesh	$ 150	Bolivia	$ 470
Mozambique	160	Liberia	470
Zaire	170	Indonesia	530
Madagascar	240	Yemen	550
Somalia	280	Morocco	560
Kenya	290	Philippines	580
Sudan	300	Egypt	310
Haiti	310	Honduras	720
Guinea	320	Dominican Rep.	790
Sierra Leone	350	El Salvador	820
Senegal	350	Jamaica	940
Ghana	380	Peru	1,010
Pakistan	380	Tunisia	1,160
Sri Lanka	380	Guatemala	1,250
Zambia	390	Costa Rica	1,300

Source: World Bank

The range in per capita GNP levels for the 30 Title I recipients in FY1986 is very wide -- from $150 in Bangladesh to $1,300 in Costa Rica. The number of countries falling in different per capita income categories is as follows:

Income Range	Number of Countries
Under $200	3
$200 - $400	12
$400 - $600	6
$600 - $800	3
$800 - $1,000	2
Over $1,000	4

Clearly, per capita GNP is not the only consideration in measuring a country's ability to pay for food imports. At times, balance of payments or foreign exchange availability is a consideration. Also, in some years, countries may need special assistance because of bad crops. Similarly, there may be special foreign policy considerations that lead to more generous Title I terms than would be dictated just by a country's income level.

Where there are special foreign policy considerations, the United States should provide economic assistance from its foreign aid programs beyond those that can be justified on market development grounds under Title I. Similarly, special food aid situations in response to disasters can be met through Title II

programs, the 416 donation program, and the Emergency Wheat Reserve.

Title I terms should vary with a country's ability to pay, especially if the program is thought of primarily as a market development activity. It is not in the long-term market development interest of U.S. agriculture to provide large subsidies beyond the time when they are really needed. Doing so blunts the impact of the program on developing markets since program resources flow to countries that least need them.

But in fact, Title I sales terms are not correlated with recipients' income levels. In recent years sales have been made on the softest possible terms. For example, in fiscal year 1988 there were no dollar credit sales, $665 million of convertible currency sales and $33 million of sales for local currency. The reason given for these lenient terms is that recipient countries have balance of payment problems. But developing countries always have balance of payment problems!

Steps Toward Improvement

The status of Title I sales terms is clear evidence that the program is being operated to provide economic assistance and not as a market development tool. Recipients may very well deserve economic assistance from the United States. However, it is important to note that the Title I program was not established solely to meet this need.

It would be advisable to have an explicit policy for increasing Title I terms as ability to pay increases. Such a policy would not only increase U.S. returns from exports, but it would also permit redeployment of Title I funds from countries who least need it to those who need it the most.

Another step that could be taken to improve market development efforts is to direct more of the local currency generated under Title I to market development activities and investments in the recipient country. Other agencies could have access to the balance of local currency funds once market development activities were financed.

Use of graduated terms for Title I, a stronger emphasis on market development, and shifting primary responsibility for the program back to USDA should result in better coordination with other programs that have a market development component. For example, under the GSM 103 intermediate credit program (loans up to 10 years), the funds generated from the sale of U.S. commodities can be used to finance a variety of investments in infrastructure and processing facilities. These investments could be very useful in both improving efficiency within the growth prospects for recipient countries and aiding growth in the demand for U.S.

agricultural exports.

At the policy level, a great deal can be done to use Title I to help the United States become more competitive. From the very beginning, there was international agreement that PL480 should not displace normal commercial sales and recipient countries are required to buy a certain amount annually on a competitive basis. Commercial sales directly tied to aid are also prohibited. But in fact, other countries use food aid in some instances to entice countries to buy commercially.

The United States has for some time been in a position of providing substantial quantities of PL480 assistance to some countries while receiving little, if any, of these nations' commercial sales. It seems only reasonable that if the United States is a major supplier of highly subsidized PL480 commodities to a country it should receive a fair share of that country's commercial purchases.

Another policy that the United States can and should adopt is to package all its export assistance programs in ways that improve both competitiveness and long-term market development prospects. In addition to tailoring Title I terms to fit individual country situations, it can be combined systematically with intermediate credit (GSM 103), short-term credit (GSM 102), export subsidies (EEP), and other export assistance programs. In this way, the United States can develop export strategies for developing countries that best fit recipients' needs and maximize the competitiveness of U.S exports.

It is clear from the above discussion that USDA should have primary responsibility for Title I so that the program can be operated in an appropriate manner.

IV. Achieving Needed Reorientation

A great deal of the needed reorientation of Title I can be achieved by Executive Order, but legislative changes might be needed as well. How this reorientation can be achieved is discussed below.

Executive Action

Assigning primary responsibility for Title I to USDA can be achieved by Executive Order or by legislation, and this can be done quickly. The interagency process would continue to operate as it always has with State, AID, Treasury, and OMB tending to the significant foreign policy, development assistance, or financial aspects of Title I sales. But USDA would take the lead role within the interagency process, determining recipient countries and funding allocations, initiating Title I sales, designing and implementing agricultural market development activities under the program, and coordinating Title I sales with those under other export programs.

Some changes in USDA's operations will also be required.. First, USDA's Washington-based staff and its agricultural attaches and counselors will have to become more involved in Title I programming and associated market development activities. There will be a need for staff training including expanding USDA expertise in marketing and program design. Increasing the size of the Foreign Agricultural Service's U.S. and foreign-based staff is also necessary. Movement in that direction was signalled in the 1988 Trade Act. Appropriations for these purposes are now necessary.

Second, USDA will have to strengthen its country expertise for Title I recipients since there will be a greater emphasis on using this program more effectively to achieve both economic and market development goals. National economic and agricultural policies in developing countries will have to be examined closely to identify the best long-term opportunities for Title I to contribute to economic and market growth. USDA staff should work closely with AID personnel who are expert in the agricultural and economic development issues facing various developing countries.

Finally, USDA will have to coordinate Title I more closely with other export assistance programs, as suggested above, for both market development and competitive reasons. It will have to adopt a policy and arrange staffing to do this.

USDA will also have to strengthen its role at the foreign country-embassy level. It is not enough to make such a shift only in Washington. It will have to be made clear to U.S. Ambassadors and AID Country Directors serving at the embassy level that

agricultural attaches and counselors will play the lead role in developing and monitoring Title I agreements and that they will need the constructive cooperation of Department of State and AID officials in these countries. In turn, USDA staff should contribute to the formulation and operation of AID country programs.

Congressional Action

Beyond what can be achieved at the Executive level, Congress also has a role to play in reorienting the Title I program. As a minimum, Congress should support the shift of primary responsibility for Title I. It can do this either through passing a resolution indicating its intent or through enacting specific legislation that requires the shift in responsibility.

In addition, Congress could engage in an evaluation of Title I to see how the program can be simplified and made more focused. Over the years, the program became very complex as its goals became more numerous, as the member of U.S. agencies either involved in its operation or that have claims on its resources increased, and as an increasing number of restrictions have been added. It would be advisable for Congress to work closely with USDA and other agencies on streamlining the program.

Finally, Congress should require USDA to provide annually a five-year plan for the Title I program that would identify the most promising country markets, indicate how Title I would be used in conjunction with other export assistance programs, identify countries where Title I terms should be strengthened because of improved ability to pay and those that could benefit from larger Title I programs, and monitor progress toward achieving both market development and competitive goals. Both Congress and USDA should seek active participation from the private sector in developing and evaluation these five-year plans. This should include commodity and market development co-operator organizations, exporters of raw and processed agricultural products, and other private U.S. food system companies and organizations that have an important role to play in providing investments and technical assistance to developing countries that would help improve these nations' agricultural and economic performance and contribute to longer term development markets for U.S. agricultural products.

Considering the overwhelming benefits of returning the primary responsibility for Title I back to USDA and again making it a market development program, it is important for the administration and Congress to achieve this change as soon as possible. Doing so would strengthen both short- and long-term agricultural export prospects, help reduce the trade deficit, and contribute to lowering the budget deficit because stronger demand would work to reduce outlays on commodity programs.

October 30, 1989

Final FY 1989 Public Law 480 Titles I/III
Country and Commodity Allocations

Country	$Mil. Total (Mil.)	Undesig-nated (Mil.)	Wheat/ Flour a/	Rice	Feed Grains	Vegoil	Total Foods	Tallow	Cotton	Wood
			(1,000 Metric Tons/Bales/Boardfeet)							
$940 or less Per Capita GNP										
Bangladesh	80.0	-	341	33	-	-	374	-	36	-
Bolivia	17.0	-	110	-	-	-	110	-	-	-
Cote d' Ivoire	5.0	-	-	18	-	-	18	-	-	-
Dominican Republic	4.6	-	-	-	-	11	11	-	-	-
Egypt	177.0	-	912	-	-	33	945	-	-	-
El Salvador	40.0	-	98		22	16	136	25	-	-
Ghana	6.0	-	-	9	-	-	9	-	-	-
Guatemala	18.0	-	109	-	-	-	109	-	-	-
Guyana	7.0	-	44	-	-	-	44	-	-	-
Honduras	18.0	-	110	-	-	-	110	-	-	-
Indonesia	15.0	-	-	55	-	-	55	-	-	-
Kenya	5.0	-	33	-	-	-	33	-	-	-
Morocco	44.0	-	140	-	-	38	178	-	-	-
Pakistan	80.0	-	-	-	-	124	124	-	-	-
Senegal	5.0	-	-	16	-	-	16	-	-	-
Sierra Leone	4.0	-	6	10	-	-	16	-	-	-
Sri Lanka	36.0	-	218	-	-	-	218	-	-	-
Sudan	23.5	-	123	-	-	-	123	-	-	-
Uganda	6.0	-	-	-	-	-	0	15	-	-
Yemen	10.0	-	-	28	-	-	28	-	-	-
Zaire	31.0	-	52	57	-	-	109	-	-	-
Zambia	10.0	-	20	-	-	8	28	7	-	-
Subtotal	642.1	-	2316	226	22	230	2794	47	36	0

Country	$Mil. Total (Mil.)	Undesig-nated (Mil.)	Wheat/ Flour a/	Rice	Feed Grains	Vegoil	Total Foods	Tallow	Cotton	Wood
			(1,000 Metric Tons/Bales/Boardfeet)							
Over $940 Per Capita GNP										
Costa Rica	15.0	-	115	-	-	-	115	-	-	-
Jamaica	37.4	-	117	30	75	-	222	-	-	18
Peru	15.0	-	66	17	-	-	83	-	-	-
Tunisia	25.0	-	104	-	83	-	187	-	-	-
Subtotal	92.4	0.0	402	47	158	0	607	0	0	18
Allocated	734.5	0.0	2718	273	180	230	3401	47	36	18
Unallocated Reserve	-									
Total Commodity Program	734.5									

a/ Wheat Flour included as grain equivalents.

ATTACHMENT

FY-89 P.L. 480 TITLES I/III PROGRAMS CARRIED FORWARD AND OBLIGATED IN FY-90
(Commodity Values Only)

Country	$Mil. Total (Mil.)	Undesig-nated (Mil.)	Wheat/ Flour a/	Rice	Feed Grains	Vegoil	Total Foods	Tallow	Cotton	Wood
			(1,000 Metric Tons/Bales/Boardfeet)							
Congo	2.0	-	-	5	-	-	5	-	-	-
Dominican Rep.	14.6	-	-	-	-	33	33	-	-	-
Jamaica	2.6	-	-	-	-	-	0	-	-	19
Peru	6.0	-	-	-	53	-	53	-	-	-
Yemen	5.0	-	-	13	-	-	13	-	-	-
Zaire	3.0	-	-	-	-	-	0	-	8	-
TOTAL	33.2	-	-	18	53	33	104	-	8	19

Senator DASCHLE. Thank you all very much. I unfortunately have a conflict at 4:45. So I will have to forgo some questions.

I will ask unanimous consent that we allow the record to stay open for an additional period of time, 3 days, to allow other members to ask questions in writing of our witnesses. So you can expect, perhaps in the next couple of days, some additional questions.

But we want to thank you very much for sharing with us your thoughts and for making such excellent testimony. Thank you very much.

The General Accounting Office was scheduled to testify, and they will be providing testimony for the record at a later date, and at this point in the record we will include their statement submitted to us by Mr. Allan Mendelowitz of GAO. So we want to thank them.

At this point in the record we will also include the written statement submitted to us by Mr. Alan Larson of the Department of State.

[The prepared statements of Mr. Mendelowitz and Mr. Larson follow:]

November 7, 1989

STATEMENT OF ALLAN I. MENDELOWITZ, DIRECTOR
TRADE, ENGERY, AND FINANCE, NSIAD

Mr. Chairman and Members of the Subcommittee:
We are pleased to be here today to discuss with you our observations on P.L. 480 Title I transportation issues. Our work was conducted at your request and updates issues addressed in prior GAO reports[1] which identified various problems in the way the Department of Agriculture (USDA) managed ocean transportation of P.L. 480 commodities.

In essence, we have been concerned for several years that existing practices have not ensured that USDA's transportation costs are the lowest possible and that USDA's procedures and controls have not ensured that the integrity of the process is adequate.

Although USDA has taken some corrective actions in response to our prior reports, such as instituting open bidding, our recent work indicates that several transportation issues still warrant additional consideration. These include

- -- delays in payment to vessel owners by recipient countries, which increase shipping costs;
- -- the clustering of tenders, which creates peak demand and increases shipping costs;
- -- the role of country agents, which increases the risk of Regularities in the program; and
- -- the lack of sufficient government control of the program.

BACKGROUND

Under Title I, concessional credits are provided by the U.S. government to developing countries to purchase and import U.S. agricultural commodities. Recipient countries are responsible for paying shipping costs for the commodities that are in effect equal to the free market cost for ocean transportation. However, because of U.S. cargo preference law, 75 percent of the P.L. 480 commodities have to be shipped on U.S. flag vessels which are more costly than foreign flag vessels. For commodities shipped on U.S. flag vessels, USDA pays the difference between the average rate of foreign flag vessels that would have been selected without cargo preference and the higher cost of shipping on U.S. flag vessels. This difference is called the ocean freight differential (OFD).

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[1] Transportation of Public Law 480 Commodities--Efforts Needed to Eliminate Unnecessary Costs (GAO/NSIAD-85-74) June 18, 1985; Opportunities for Greater Cost Effectiveness in Public Law 480, Title I Food Purchases (GAO/NSIAD-84-69) April 19, 1984; Cargo Preference Requirements Add To Costs Of Title II Food For Peace Programs (GAO/OCE-84-3) August 2, 1982; Economic Effects Of Cargo Preference Laws (GAO/OCE-84-3) January 31, 1984.

Since P.L. 480's inception in 1954, the United States has paid approximately $1.8 billion in OFD to U.S. ship owners.

Shipping Title I commodities involves several participants: the recipient country, the country agent, the ship owner, the ship broker, the commodity supplier, and USDA. Once USDA issues a purchase authorization for commodities, it is the responsibility of the foreign country, subject to USDA approval, to procure the commodities and arrange the ocean transportation, directly or through its agent. In fiscal year 1989, all but two recipient countries had country agents. The country agent requests transportation offers from the industry through public notices called tenders, which include essential information a vessel owner needs to calculate a transportation offer. USDA approves the public transportation tenders issued by the country agents. Country agents receive a commission of 2-1/2 percent of the freight costs if they use U.S. flag ships. This commission is shared with ship brokers if they are used.

The ship owners of U.S. and foreign flag vessels bid for shipments of P.L. 480 commodities, often with the assistance of brokers. The broker's function is to make the ship owner aware of potential business, ascertain and explain the tender terms, and assist the ship owner in winning the tender at the highest possible freight rate. Once the commodity and freight tenders are announced, the freight bids and the commodity bids are submitted. USDA then matches the two types of bids to come up with the "lowest landed cost", i.e. the lowest combination of commodity and transportation costs. As part of the transportation process, USDA relies on the Maritime Administration (MARAD) to ensure that the rates offered by the U.S. flag vessels are fair and reasonable.

IMPLEMENTATION OF OPEN BIDDING

In 1985 we recommended that USDA require transportation offers to be opened publicly to eliminate or minimize the problems in the bidding and negotiation process. That recommendation was finally implemented, nearly 4 years later, on May 25, 1989.

Open bidding appears to have improved the integrity of the bidding process and introduced openness and transparency into the heretofore closed negotiating process for shipping rates. Bids are now opened and read in public and the lowest bidder meeting the tender terms is selected without negotiations. Vessel owners, knowing there is no negotiation of rates, have a strong incentive to submit their lowest offers on the initial bid. Ship owners we interviewed said that open bidding is better than closed bidding because it is more equitable in that everyone has a chance to qualify. Thus, open tenders may promote lower costs through greater participation in the bidding process.

LATE PAYMENT

U.S. ship owners experience substantial delays in recovering payment from recipient countries. Several ship owners we met with complained that they have significant problems with collecting freight payments. Such delays eventually result in higher

transportation costs, including higher OFD payments by the U.S. government.

Recipient countries usually pay 90 percent of the transportation charges upon discharge, and the 10 percent balance is withheld as cargo shortage claims. This procedure is contrary to the standard bulk shipping practice which mandates 100% freight payment on completion of the cargo loading. A sample taken by MARAD of the 10 percent withholding from U.S. flag carriers showed that they had arrearages during a one year period (April 1, 1988 to March 31, 1989) in excess of $11 million. One MARAD official told us they had received complaints on this issue and referred them to USDA.

According to ship owners, such payment delays cost them money and increase their operating costs. The cost to the U.S. government is higher because higher costs result in higher freight rates and larger OFD payments. According to one ship owner, the delays in paying the 10 percent of freight charges can take many months, with one unresolved case still pending after 16 months. This same ship owner had 21 P.L. 480 shipments between July 1986 and November 1988 and estimated that compared with commercial credit terms, the opportunity cost of late payments, which was approximately $514,000, increased the company's cost by one percent.

According to ship owners, USDA does not take action against countries which are delinquent in paying shipping costs. USDA maintains that it is limited in what it can do because it is not a party to the shipping contract which is between the recipient country and the shipper. However, it reports that it does initiate contact with countries with delinquent payments asking them to correct the problem.

In light of the problems encountered by U.S. shippers, USDA may wish to reassess its position on this issue. For example, MARAD considered the issue important enough to recommend to USDA that the payment terms be changed to 95/5 percent. The delay in receiving payment raises the cost to the shipping companies who, in turn, raise the rates they charge. These higher rates increase the U.S. government's OFD payments. Addressing the issue could lower program costs.

CLUSTERING OF TENDERS

The clustering of tenders during the third and fourth quarters of the fiscal year also increases freight rate costs. This has been a perennial problem with the P.L. 480 program. Our analysis of the 1988 shipments showed that tenders were heavily skewed during the last two quarters. Such clustering causes heavy demand for the limited number of U.S. flag ships toward the end of the fiscal year in order to satisfy the cargo preference requirement. Concentrating demand in this way usually results in higher prices, and likely leads to higher freight costs. Spreading the shipment of P.L. 480 commodities more evenly over the year could eliminate

peaks in demand and lower shipping costs. This, in turn, could lower the program's cost to the U.S. government.

According to a USDA official, clustering takes place because of prolonged negotiations between the U.S. government and recipient countries to draw up the basic annual country agreements that specify the terms and conditions binding the recipient countries.

In our 1984 report on improving the cost effectiveness of P.L. 480 we concluded that Title I tenders should be spread out over the year. A USDA official told us that there have been improvements in signing country agreements early in fiscal year 1989. However, clustering continues to occur.

TENDER STRUCTURING

Over a dozen representatives of the U.S. government, shipping industry, and some agents and brokers have expressed concerns about improprieties relating to country agent operations. These concerns include the possibility of questionable payments and the potential for country agents to structure transportation tenders to favor particular ship owners. Even under open bidding, country agents still write the tender specifications, subject to USDA approval, and these specifications can affect competition. For example, unnecessarily restrictive vessel length and depth limits in the tender can affect the extent of competition or the rates offered by competing vessels.

CARGO PREFERENCE

Cargo preference as legislated is designed to help maintain the U.S. merchant marine industry and thereby assure that in time of war the United States would have a merchant marine fleet of its own to transport material and troops. To help accomplish this goal, at least 50 percent of U.S. government-financed shipments was required to be carried on U.S. flag vessels. The Food Security Act of 1985 increased this requirement for P.L. 480 shipments to 75 percent. MARAD pays to USDA the additional 25 percent incremental cost above the original 50 percent ceiling.

In 1988, Title I commodity costs were budgeted at $788 million. The OFD cost of the cargo preference requirement was approximately $79.2 million in calendar year 1988.

We have issued two reports on cargo preference and are currently undertaking a congressionally requested review of the agricultural trade implications of cargo preference, including its cost to the U.S. government.

EXTENT OF GOVERNMENT INVOLVEMENT

Because of continuing perceptions of the vulnerability of the program to abuse, several proposals involving greater U.S. government involvement in the P.L. 480 Title I transportation process have been suggested. Several ship owners, country agents, and government officials we met with stated that if USDA better controlled the process, the potential for program abuse would be reduced.

One program participant formally proposed that USDA appoint its own agents to handle all matters relating to U.S. flag and any

other ocean freight financed by USDA. Such a move would give USDA more direct control over freight expenditures and would lessen concerns relating to fraud and abuse.

Similarly, a USDA official told us that having the government fulfill the role of the country agent may enhance the program's image and provide greater control over shipping operations. He added that 10 and 15 additional employees would be needed for USDA to carry out this function. Because of these additional budget expenditures he did not consider it possible at this time.

We believe the proposal that calls for USDA to assume the country agent role deserves further attention by USDA. While it would necessitate an increase in USDA staffing it should also result in a reduction in program costs through the elimination of country agent fees. USDA should determine whether it is cost-effective for the U.S. government to undertake this responsibility. If the proposal can reduce program costs and at the same time reduce the perceived vulnerability of the program to irregularities it should be implemented.

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Mr. Chairman and Members of the Subcommittee, this concludes my statement. I will be happy to answer any questions you may have.

PREPARED STATEMENT

OF

ALAN LARSON

DEPUTY ASSISTANT SECRETARY

BUREAU OF ECONOMIC AND BUSINESS AFFAIRS

DEPARTMENT OF STATE

BEFORE A HEARING OF

THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

OF

THE UNITED STATES SENATE

NOVEMBER 7, 1989

Mr. Chairman:

I am pleased to be here today to discuss our food aid program and how we believe it might be improved.

Let me say at the outset that the food aid programs to which I will be referring today are PL-480, Titles I, II, and III, and Section 416 (of the Agricultural Act of 1949).

Today I would like to make four main points.

- FIRST, our food-aid program is vitally important and serves many objectives. The primary objective is feeding hungry people, but other objectives -- encouraging economic development, fostering private enterprise, developing export markets and promoting U.S. foreign policy -- also are very important and are well served by food aid. For example, our recent grant of $100 million in food aid to Poland is supporting the transition in that country toward democracy and a free market economy.

- SECOND, the interagency coordinating process for our food aid program works well.

- THIRD, certain features of the current food aid program are especially important and should be retained: the Food Security Wheat Reserve or an alternative method of insuring adequate supplies of wheat; the principle of additionality in food aid, which ensures that food aid does not act as a disincentive to local production nor displace commercial sales; and, the importance of the traditional feeding program in our food aid program.

- and FOURTH, we are considering improvements in food aid programs in three areas: greater concessionality; procedural improvements or simplification of programs such as Section 108 and Title III; and simplified audit procedures.

I. OBJECTIVES.

The current law lists multiple objectives for our food aid program, including:

- "to develop and expand export markets for U.S agricultural commodities";
- "to combat hunger and malnutrition";
- "to encourage economic development";
- "to foster and encourage the development of private enterprise";
- to encourage agricultural production in recipient countries;
- and "to promote in other ways the foreign policy of the United States."

We support all of these objectives and believe that our food aid can be successfully used to make progress in all the areas.

The most basic and fundamental goal of our food aid program is to combat hunger and malnutrition and to provide emergency food to countries that have been devastated by either natural or man-made disaster.

- Under Title II of PL-480, Private Voluntary Organizations (PVOs), have been particularly effective in providing food through direct feeding programs for humanitarian purposes. In my own tours overseas in Sierra Leone, Zaire and Jamaica I have seen firsthand the impressive work that the PVOs are doing providing food directly to the most needy. Particularly impressive are programs to provide food to nursing mothers and to school children.

- To meet emergency food needs caused by disasters, either natural or man-made, we have used a variety of provisions under our current law. Most important have been the Title I reserve, Section 416, the Title II reserve, and the Food Security Wheat Reserve. In the last fiscal year for example we used the Title I reserve to meet emergency needs in the following cases:

-- $20 million to Bangladesh to meet the flood emergency.

-- $10 million to Jamaica to meet the emergency caused by the Hurricane.

-- Since 1981 more than $600 million of food aid have been provided to Ethiopia to meet the needs caused by two devastating droughts and the civil wars that are underway in that country. This food was provided mostly under Section 416 and from the Title II reserve.

A second important goal of our food aid program is market development -- promoting the export of U.S agricultural products. The food aid program has been important in introducing American commodities into many countries that were buying from others or were not familiar with our commodities.

- In the last fiscal year we have used Section 416 to introduce American sorghum as a feed grain to countries not previously familiar with the product. Sorghum has been introduced in this way to Jordan, Tunisia, Poland, and Indonesia. We are hopeful that the introduction of sorghum through our food aid program will lead to a permanent commercial market for sorghum in those countries.

- In FY-89 we introduced American rice into the Ivory Coast using PL-480, Title I. In conjunction with our food aid program we made our first commercial sales of brown rice to private sector rice mills. We are hopeful that we have created a new market for US rice.

The local sale of commodities provided under food aid generates local currency counterpart funds which are used to encourage economic development, foster private enterprise, and encourage agricultural production. We support the effective uses of counterpart funds.

The final objective of our food aid program is to "promote in other ways the foreign policy " of the United States. In our view, all of the foregoing objectives of the food aid program promote our foreign policy. Providing humanitarian and emergency assistance, encouraging agricultural and economic development, fostering private enterprise, and promoting US exports are all major foreign policy objectives of the United States.

It is important to be able to use our food aid program to further specific important foreign policy objectives and initiatives. The flexibility that the food aid reserves give to the President is especially important when a quick response is necessary. The most recent use of the program in this way was the President's commitment of $100 million in food aid to Poland. We are using food aid to fill the gaps and ease the shortages that are resulting from the what we hope will be a transition of Poland from a centrally planned, communist nation to a free enterprise democratic system. The flexibility to use our food aid program to support democracy as we are doing in Poland is one of the best features of our current law.

Other examples of the use of our food aid program to further our foreign policy would include the following:

- The Philippines. Food aid provided a cushion of badly

needed food to support President Aquino's efforts to restore democracy and economic vigor to the Philippines.

- In Pakistan and Afghanistan, we have used food aid to support the Afghans fighting the Kabul regime and to assist Pakistan in providing food to the 3 million Afghan refugees who have fled to Pakistan because of the war.
- In Jordan, the food aid program allowed the Administration to respond rapidly to the quickly deteriorating economic situation in Jordan. Support for Jordan, a most important friend that plays a critical role in the Middle East peace process, is an important foreign policy objective. We also have introduced sorghum as a feed grain to Jordan through our food aid program.

While we favor using our food aid program to complement and strengthen our foreign policy and overseas relationships, this does not diminishes our strong commitment to combat hunger and malnutrition as the primary and most important objective of our food aid program. For example, the Administration has supported food aid programs in Ethiopia and Mozambique, countries with which we have not had the strongest relations. We have provided over $600 million in food aid to Ethiopia and more than $150 million to Mozambique since 1981.

II. My comments on the interagency coordination of our food aid program will be brief. Coordination takes place in a subcommittee of the Development Coordinating Committee -- an interagency group composed of State, USDA, AID, OMB, NSC and Treasury. The DCC Title I Working Group is chaired by USDA and the Title II Working Group is chaired by AID. The DCC ensures that all agencies with a legitimate interest in the program have a place at the table when decisions are made. The DCC serves to facilitate interagency clearances that are essential before a program can proceed.

While all agencies share a commitment to use the food aid program in the first instance to combat hunger and malnutrition and to respond to emergency situations, each agency has an important perspective that must be taken into account when decisions are made. Coordination of these various interests and concerns is essential if our food aid program is to succeed. The DCC does an excellent job of obtaining interagency clearances, resolving interagency differences, and providing the necessary balance and flexibility in making decisions to ensure the smooth flow of food aid.

III. Important features of the current system.

At this point I would like to say a word about three aspects of the current system that we find especially important and wish to see retained.

- The first is the Food Security Wheat Reserve, a reserve of 4,000,000 MT of wheat to be used for food aid when sufficient supplies are not otherwise available. The last two years have illustrated the importance of this reserve to our food aid program. With wheat harvests lower than expected in both 1988 and 1989, US wheat stocks fell more that 80% from 1985/86 levels to their lowest point in 17 years. Global supplies are similarly at an all time low when compared with annual consumption. Because of this shortage in US domestic supplies, we have had to call on the reserve for 1.5 million MT in FY-89, and for 2 million MT in FY-90. We supplied 3.8 million MT of wheat as food aid in FY-89 and anticipate that we will supply 3.5 million MT in FY-90. Without the reserve, we would have had to severely reduce our food aid program both last year and this year -- to the detriment of people throughout the world that have a serious need for food aid. We believe that the Food Security Wheat Reserve or some other method of insuring adequate supplies of wheat is essential in making our food aid program responsive and reliable.

Second is the principle of additionality. Food aid is best used when it provides additional food to people who really need it. Food aid should not displace commercial sales, nor should it act as a disincentive to local production. If it is not properly used, food aid has the potential to do as much damage as good. There are, of course, cases when a deteriorating

economic situation has necessitated the substitution of food aid for commercial sales because the importing country lacks the foreign exchange to purchase food commercially.

The third important feature is the importance of the traditional feeding program in our food aid program. Much of our food aid program today goes directly to governments to be sold on the local economy at market prices. Nevertheless, direct feeding programs, many of which are run by the PVOs, remain a very important part of our effort to get food directly to people who need it most and cannot afford it. Even though these programs can difficult to run, we believe this type of aid meets a critical need in many countries.

There is movement today toward monetizing food aid programs and using the money for economic development. While we support such programs that are appropriate, well thought out and well run, we do not favor the wholesale abandonment of feeding programs in favor of monetization. We believe that the comparative advantage of food aid continues to be feeding people.

IV. AREAS IN WHICH THE FOOD AID PROGRAM COULD BE IMPROVED

The DCC agencies are studying the question of possible changes in food aid legislation. So far no decisions have been reached, and the Administration has no position at this point.

However, there is some general agreement about issues that need to be addressed. I would like to discuss three of those issues areas with you.

1. GREATER CONCESSIONALITY. The first issue is concessionality. Our food aid program is currently about half grant and half concessional loan. Even though our loan terms are generous -- in many cases 40 year repayment, 10 years of grace, interest at 2% and 3% -- today many countries that receive food aid have large debt service burdens and can no longer affort even those generous terms. Greater flexibility to provide more grant food aid in cases where it is clearly needed may be needed. We recognize that by increasing the portion of food aid that is grant, loan repayments will decline in the long run and the amount of money available for food aid may decline. However, it may be appropriate to increase the concessionality in our program, even if it meant a reduction in resources in the long run.

2. PROCEDURAL IMPROVEMENTS. Some sections of the law have proved to be difficult to implement. Simplification of procedures could result in substantial improvements in the program. For example, procedures under Title III are too complex to negotiate with the nations this program was designed to benefit. As a result we only have two functioning Title III programs. Many of the requirements under Section 108 are unrealistic. In other areas, minor changes or standardization

could be of tremendous benefit to the management of the program. Standardized criteria for the use of counterpart funds in Titles I, II, III, and Section 416 would greatly benefit the food aid program. More latitude in the transfer of funds between titles would add needed flexibility to the program. While we have no proposals at this point because the interagency group is still studying the issue, we hope that the new legislation will result in improvements in these areas.

3. AUDIT PROCEDURES. There are today different interpretations among the agencies and within some agencies of what procedures are necessary to audit the uses of counterpart funds. While we fully support the need to audit the expenditure of government funds, we do not believe that the audit function should become so onerous or expensive that it becomes a burden on the entire program. This has occurred today. Not only is difficult to manage a food aid program in a post without an AID mission because of the auditing requirements, many PVOs are less willing to undertake food aid programs because of the audit and inspection Procedures. This is an urgent problems that we sincerely hope will be addressed in the renewal of the PL-480 legislation.

IN CONCLUSION, let me review our views of our food aid program. First, our food aid program serves many objectives, the most important of which is feeding hungry people. Other important objectives include encouraging economic development, fostering private enterprise, market development, and promoting U.S. foreign policy. Second, the interagency coordinating process for our food aid program works well. Third, Important features of the program that should be retained include the food security wheat reserve or another method of insuring adequate supplies of wheat, the principle of additionality, and traditional feeding programs. And, fourth, we are considering improvements in three areas: greater concessionality, procedural improvements and simplification of programs, and simplified audit procedures.

Senator DASCHLE. We wish to thank this panel and thank those who have testified for making this a very productive session this afternoon.

The hearing stands adjourned.

[Whereupon, at 4:46 p.m., the committee recessed, to reconvene at 9:38 a.m., Thursday, January 25, 1990, in room SD–192, Dirksen Senate Office Building.]

[Material submitted for inclusion in the record follows:]

APPENDIX

PREPARED STATEMENT OF CHARLES SYKES, ASSISTANT EXECUTIVE DIRECTOR, CARE, WASHINGTON, DC

Mr. Chairman and Members of the Senate Agriculture Committee:

I am Charles Sykes, Assistant Executive Director of CARE and Director of its Washington Liaison Office. My organization is a member of the Coalition on Food Aid Policy and Programs which I co-chair. I mention this because part of my testimony will reflect certain shared values with other Coalition members.[1] We deeply appreciate this opportunity to present written testimony to your committee.

LOOKING BACK—A BRIEF REVIEW

In 1985, CARE and the Coalition asked the Congress to review three major issues, eclectically known as the three "M's", i.e., the Title II Minimum tonnage, Monetization, and Multi-year commitment of food aid resources. Your committee was responsible for bringing about significant legislative changes in each of these areas. These changes were part and parcel of the Food Security Act of 1985, as amended.

Based on your review of global food aid projections in 1985, you provided for an incremental increase in the Title II minimum tonnage level from 1.7 to 1.9 million metric tons. This increase was effectively utilized by our organizations and the World Food Program of the United Nations to meet emergency and non-emergency food needs of many hungry and malnourished people in the poorest, food deficit countries. We continue to strongly support the 1.9 million metric ton minimum and the 1.425 million metric ton subminimum, as well as the 75 percent minimum for processed, fortified products to help assure nutritious feeding programs. We hope that AID will actively implement these requirements of the law.

You also expressly authorized our organizations to monetize or barter a percentage (5 percent and later raised to 10 percent) of food aid commodities to meet in-country transport, storage, distribution and other costs which enhanced the effectiveness of the use of the commodities as well as to implement income generating, community and cooperative development, health, nutrition and agricultural programs. I am pleased to report that we have implemented a wide range of successful projects as a result of monetization. Consistent with the provisions of the law, most of these projects are in direct support of feeding programs. Monetization funds have also been used for micro-enterprise development, village self-financed water projects, cooperative agricultural production, and processing and marketing projects.

Additionally, you included a multi-year commitment provision in the law, Section 202(4)(c)(1). This amendment, more than any of the others, strongly supports the concept of food security. Multi-year commitments of food aid enable our organizations to extract a correspondingly higher level of commitment from the host governments and community organizations we work with. Unfortunately, this has proven to be the weakest of the 1985 amendments in terms of ensuring a non-repetitive annual process of program approval. PVO's and cooperatives are required to submit multi-year plans, but these plans are still subjected to annual re-review and re-writes. This obviously defeats the whole purpose of the multi-year commitment provision in the law. Annual adjustments in programs may and in some cases should be made by PVO's in adapting to circumstances in the field. However, AID is responsi-

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[1] Members of the Coalition for Food Aid Policy and Programs include the Adventist Development and Relief Agency, Africare, Agricultural Cooperative Development International, CARE, Catholic Relief Services, the Council for International Development, Land of Lakes, the National Cooperative Business Association, Save the Children and SHARE.

ble for the implementation oversight of these programs; the Development Coordination Committee (DCC) consisting of AID, State, OMB, USDA, and Treasury should not have to re-review them year after year. Both development assistance and the projects of the World Food Program are approved on a multi-year basis. Why should our PVO food aid programs be treated differently?

A Look at the Results

In spite of the weak implementation of the multi-year provisions of Title II, I can still say with absolute certainty that without all these changes in the law CARE would never have been able to reach almost 33 million people with food aid in both emergency and non-emergency programs this year. We were also able to support immunization programs for 1.8 million children under the age of five. So many of these children who were immunized against early childhood diseases were also undernourished; food aid was used to supplement the diets of many of these children.

We were also able to complete some 540 village and urban slum water systems which reduced the spread of water borne diseases; some of those projects made use of food-for-work to engage unemployed and under-employed poor who live in these communities. These types of community self-help projects are carried out in consultation and cooperation with local community leadership. In the poorer, food deficit countries where malnutrition is rampant, food aid was an important resource in mobilizing community support and adding to the caloric intake of communities where nutritional levels are so abysmally low that the most simple worry is a physiological challenge.

Lessons Learned

Mr. Chairman, food assistance is most successful in meeting the objectives of promoting food security, feeding the hungry and meeting development goals when the following conditions prevail:

1. When it is integrated into a program which has a very clear objective, e.g., to increase the school attendance of children from poor families, particularly female students, at the primary level or to reclaim land for agricultural purposes, with priority for sale given to the rural landless.
2. When it is combined with technical assistance, training, other material resources, and management in combinations appropriate to local conditions, needs and priorities—all of which require some local currency and dollar funding in addition to the food assistance.
3. When field managers of food aid programs can count on the timely delivery of food commodities of the right type, in the correct quantities and in sound condition.

We see many opportunities for using food aid to meet sound development objectives. In fact, CARE's experience confirms that there are ways to design and implement food assistance programs that not only meet humanitarian objectives, but also contribute to the building of rural and urban infrastructures, enhance sustainable agriculture, protect the environment, strengthen natural resource management, promote the cognitive development of children and involve women more fully in the development process. We will be the first to admit that the design and implementation of such programs are not easy; food is not an easy or inexpensive resource to manage. It is therefore essential that we use it with considerable care and ensure that it not only gets to poor countries, but also poor people.

CARE has long been committed to the task of assisting the developing world's poor to grow their own food or earn sufficient income to buy it. However, as long as there are so many people who still lack either the resources or skills to improve their condition, we will remain equally committed to utilizing food aid resources to alleviating human suffering and hunger.

Debt Relief

Given the mounting debt situation in the poorest, food deficit countries, it would be timely to consider revising Public Law 480 payment terms to match the recipients' ability to pay. Title I requires repayment in dollars or currencies convertible to dollars in most instances. Should we be adding to the debt of these countries when interest and principal payments far exceed their current aid flows? Although Title I represents more than two-thirds of all U.S. food aid, most poor countries do not have the dollars to purchase it, even on highly concessional terms. Should there not be an option for granting local currency repayment terms for Title I, depending on the recipient country's situation?

A related issue for these same countries is the impact of World Bank and IMF Structural Adjustment lending programs on the poorest segments of their societies and the resulting need for compensatory programs. Greater consideration of the human consequences of these lending programs by involving local people and representatives of non-governmental organizations in the planning and execution stages could preclude the need for large scale compensatory programs involving food aid.

Recommendations and Summary

Mr. Chairman and members of the committee, we respectfully submit the following general recommendations for your consideration:

- Section 3 of Public Law 480 needs to be updated and brought into harmony with current projections of global food aid needs. A good starting point for the review of this section is the National Research Council's recently published report entitled *Food Aid Projections for the Decade of the 1990's.* It has raised the projected need from 10 million to over 20 million metric tons per annum.
- Given the current debt crisis in the poorest countries, Title I sales terms need to be reconsidered; otherwise these countries will simply not qualify for badly needed Title I assistance.
- Simplified procedures need to be introduced for implementation of the Public Law 480 program throughout.
- Section 108, which provides for the promotion of private agriculture through the lending operations of financial intermediaries, should be strengthened to make it realistically operative.
- Section 401 should be amended in recognition of the fact that Public Law 480 is no longer a surplus disposal program, but an appropriated program whose funds are used to buy from the commercial market.
- Section 407, creating an Advisory Committee, should be repealed; the Committee has never operated.
- A requirement should be added to the cargo preference provisions for far stricter compliance by U.S. flag vessels with the needs of the Public Law 480 program, including strong penalties for poor performance.
- Provision should be made for both dollar and local currency funding to support the myriad costs related to effective management of food assistance programs.
- Stronger, more explicit provision should be made for multi-year commitments of food aid resources.
- At some later date, we would also like to suggest an amendment regarding the Food Security Wheat Reserve to be sure that it is protected as a humanitarian reserve against demands of commercial promotion.

We thank the Committee for this opportunity to submit written testimony for the record. We will be pleased to respond to any questions about this testimony.

CARE,
Washington Liaison Office,
Washington, DC, November 14, 1989.

To: Senator Patrick J. Leahy, Chairman and Members of the Senate Agriculture Committee.
From: Edwin J. Wesely, Chair of the Board, Dr. Philip Johnston, President, CARE.
Subject: Facts concerning the delivery of humanitarian food aid in Africa; a response respecting Mr. Christenson's statements made before your Committee on November 7, 1989.

CARE is one of several non-governmental organizations, also known as private voluntary organizations, working closely with the Governments and people of Mozambique, Somalia, Sudan and Ethiopia on ensuring that food aid and relief supplies reaches the neediest civilian populations in these countries. This has not been an easy task. We use an accounting and management system that has served us well over the past 43 years. In non-emergency food aid programs, we have come to expect a loss rate of not more than 2 or 3 percent of the food aid entrusted to us by donor countries and organizations. In emergency situations, we normally expect the loss rate, for any reason, to double to about 5 percent. When we refer to loss rates, we refer to all losses that take place from the time that the food is loaded aboard ship in the United States until it reaches the ultimate recipient. We have not found any exceptions to this experience in the four countries mentioned above. If the aggregate loss rates exceed 5 percent, we generally review our agreements with host

governments and donors. Our stewardship and record certainly do not correspond to the opinions expressed by Mr. Christenson at the November 7th hearing.

CARE has received grants from the Agency for International Development, in the case of Mozambique, and the United Nations High Commission for Refugees, in the case of Somalia, to assist these Governments in the establishment of effective logistical management and distribution systems for food aid and relief supplies from not only the United States, but all bilateral and multi-lateral donors, public and private. We do this by placing competent, experienced staff in the field who adopt our systems to local conditions, train host government and national staff, and monitor the distribution to the final recipients in refugee camps and relief centers. Yes, there have been rare instances where military personnel have helped themselves to food. In one country, almost 80 percent of the food had to be distributed in areas that were so insecure that they required military protection and convoys. There were situations where the protection units took some of the food, but such occasions were rare. Even with such losses, more than 95 percent of the food reached the intended beneficiaries.

CARE currently delivers over 434,000 metric tons of both U.S. and non-U.S. donated commodities in Mozambique, Sudan, Somalia and Ethiopia, mostly as emergency relief to displaced persons, refugees or drought victims. We are confident from personal inspection visits by ourselves and the daily monitoring performed by our staffs in these countries that these resources are reaching their intended beneficiaries. We ask that this statement be entered into the record.

We are sending a copy of this statement to Mr. Christenson and will be pleased to provide the Committee with any additional data it may wish to objectively review this subject.

NATIONAL COUNCIL FOR INTERNATIONAL HEALTH,
Washington, DC, November 6, 1989.

The Honorable PATRICK J. LEAHY,
Attn: Janet E. Breslin, Deputy Staff Director, 647 Dirksen, Washington, DC.

DEAR SENATOR LEAHY: Enclosed are our suggestions for modification of the Public Law 480 program, which we consider an extremely valuable U.S. program of assistance to developing countries. We would be glad to amplify any of these suggestions. Thank you very much for the opportunity to present these suggestions.

Sincerely,

LANE VANDERSLICE,
NCIH Policy Analyst.

SUGGESTIONS FOR THE PUBLIC LAW 480 PROGRAM

1. The National Council for International Health supports a shift in the balance of the resources from a concessional sales program such as Title I to a program oriented to reducing hunger and poverty, such as Title II.

There has been an ample length of time under the current program for market development to occur, a major reason for Title I. The use of Title I for political reasons, another major determinant of the allocation of Title I assistance, has been the source of the major criticisms of Public Law 480. For example, the role of food assistance in Egypt, the largest recipient of food aid, has been very controversial. Critics have charged that the food assistance has contributed to very low food prices, with a consequent exodus from the Egyptian countryside to urban areas, and to a wasteful use of resources, with bread being used to fatten animals, in spite of Egypt being unable to produce enough food to feed its people. Moreover there is now a great scarcity of developmental resources due to budget crises in developing countries, and the economic situation of the poorest people in developing countries has worsened substantially.

2. We believe that the basic logic of the Public Law 480 program, both conceptually and morally, should be to improve the nutrition of those who most require it in developing countries.

What rationale is there for the export of food at very highly concessional terms or as grants? Why not simply sell it at world market rates? The support for the position of improved nutrition is most clearly seen in emergency situations such as Ethiopia, when there is an outpouring of concern. But there does not seem to be any other rationale for Public Law 480 that approaches this level of support.

3. How might this basic logic be carried out? The past approach of Title II programs has been a good one. Some approaches, which are relatively unfamiliar to Title II should also be considered, such as small scale credit for nonagricultural enterprises.

We are particularly convinced of the value of feeding programs, such as nutrition programs, in assisting very poor people in developing countries. These programs have reached large numbers of predominantly women, infants and children. With mother-child supplemental feeding programs, it is also possible to build in other valuable programs such as immunizations, nutrition education, screening for medical problems, and other nutritional interventions, such as Vitamin A or iron supplementation. They can also support community activities, especially of women that can provide increased income or community services. The feeding programs are not only valuable in themselves, but also provide a reason for low-income people to allocate their scarce (if low paid) time to the programs, something that might otherwise be impossible.

Also, assistance directed to increasing food production, especially that directed to smaller-scale producers is valuable.

We would also like to suggest that other activities should be considered for inclusion or expansion within the Public Law 480 program:

Monetization of some percentage of agricultural commodities can provide for supplemental services, such as health services, which should form part of the program. This monetization should probably be done by the national government, with the receipts turned over to individual agencies.

There is clearly a need for greater participation in the program by nongovernmental organizations (NGO's) and local governments in developing countries. These are valuable ways in which local people can undertake self-help efforts. U.S. PVO's could play a valuable role in enabling food aid resources to reach NGO's in developing countries.

We also believe that the Public Law 480 program should strengthen its commitment to assist women in developing countries, as women play such a key role in food production decisions and family decisions affecting nutrition and health. The AID Public Law 480 program should strengthen its links with women's organizations in developing countries. One area which appears ready for expansion is urban child care centers for poor Third World women.

Small scale credit, not only to agricultural production but for nonagricultural production as well, should be strongly considered for support based on the central role of income, provided by jobs, in nutrition, and the large urban sectors in developing countries.

The Public Law 480 program should consider some involvement in agrarian reform, again due to the importance of a source of income in providing adequate nutrition to the poorest people. Innovative privately based land purchase programs should be considered.

Prepared Statement of Betsy A. Faga, President, Protein Grain Products International

Mr. Chairman and Members of the Senate Committee on Agriculture, Nutrition, and Forestry:

I am Betsy Faga, President of Protein Grain Products International (PGPI). PGPI is a national trade association made up of milling companies, bag manufacturers and vitamin/mineral suppliers that provide processed, blended and fortified foods for use in the Public Law 480, Title II program. Specifically, these commodities are Bulgur wheat, soy fortified bulgur, corn meal, soy fortified corn meal, corn soy blend, wheat soy blend, and soy fortified sorghum grits.

We appreciate this opportunity to present testimony before this Committee as you begin to consider the reauthorization of Public Law 480. My testimony is directed primarily at the Title II food donation portion of Public Law 480 and will focus on the reasons why exports of processed grain products under Title II are important to the nutritional well-being of overseas recipients and to the overall economy of the United States. I will conclude my testimony with recommendations for amendments to the Public Law 480 Act and reforms in the program.

Legislative History

Through Title II of Public Law 480 the United States has a long and proud record of leadership in initiating and supporting humanitarian assistance programs. Food is distributed by U.S. private voluntary organizations and the World Food Program

and in some cases is made available through direct bilateral programs with other governments. Title II is a unique program which has drawn upon the cooperative effort of the Office of Food for Peace in AID, USDA, the voluntary agencies, and U.S. industry. Each one of these partners is absolutely vital to the implementation and success of the program.

When the Public Law 480 Act was passed in 1954, the major objective of the program was to relieve world hunger through the use of surplus commodities and to relieve U.S. Government stocks of surplus grain products. However, in the late 1950's and early 1960's there was a growing concern over hunger. Recognition of the vast malnutrition and undernourishment problem among the developing nations led Congress to amend the Food for Peace legislation in 1966 changing the premise of Public Law 480 from "surplus disposal" to using "the abundant agricultural productivity of the United States to combat hunger and malnutrition . . ." The amended law placed greater emphasis on humanitarian goals and nutrition. Authority was provided in Title II for the enrichment and fortification of commodities to improve their nutritional values.

Development of Blended and Fortified Foods

This change in Public Law 480 provided an entirely new dimension to the Food for Peace program. Since the programs were increasingly targeted to children, there was a need for products which would provide nutritional impact. It was the basis for the development of low-cost, nutritious, high protein grain products specifically formulated to overcome some of the serious dietary deficiencies of people in developing countries. Through the joint effort of USDA researchers, AID, the voluntary agencies and private industry; a combination of cereal grains and soy was developed into a range of processed, fortified and blended products. The products contain an amino acid profile and usable protein content comparable to that of meat and milk and are bolstered by the addition of vitamins and minerals.

Most of the blended/processed foods that were developed were "non commercial." That is, it was considered important that these foods not be so attractive to the general population that they would encourage diversion from the intended recipient. Industry made capital investments and mill modifications to specifically manufacture these products.

Field programmers throughout the world now fully recognize and appreciate the nutritional contribution these products make to the overall dietary improvement of recipients. The products are used alone or in combination with other locally produced or imported foods such as vegetable oil in both regular ongoing and emergency feeding programs.

The private voluntary organizations do an exceptional job in tailoring well-planned food assistance programs using these high protein, processed grain products to meet the needs of "vulnerable, at risk" groups—the malnourished infant and young child, the pregnant and lactating mother, and the school age child. In these programs, food supplementation functions in a "preventive" as well as a "curative" capacity. It provides a form of "immunization" against mental retardation, inadequate growth, and infant mortality. Expanded into this broader long term role, food supplementation becomes a primary instrument in national health and development.

While these protein grain products are designed primarily as supplemental foods for children, they are nutritionally sufficient to sustain life and health of any age and are also used in Food for Work programs.

The Need

Published statistics from various international organizations indicate that the need for humanitarian food assistance will continue and most likely increase in the coming decade.

A World Health Organization report states that approximately 1.3 billion people are seriously sick or malnourished. Most affected are south and east Asia where an estimated 500 million people, or about 40 percent of the population, suffer from malnutrition or diseases followed by sub-Saharan Africa where malnutrition and disease is believed to affect 30 percent of the population, or 160 million people.

"Food Aid Projections for the Decade of the 1990's," a report from the National Research Council of the National Academy of Science, recently raised the projected global food aid need from 10 million to over 20 million metric tons a year.

RECOMMENDATIONS

Title II, as amended in 1966, called upon the U.S. Government to maximize the use of highly nutritious, high value processed products in the food donation program. The foresight of Congress then has augured well for the world's impoverished and malnourished the past 23 years. This fact, coupled with the knowledge that processing at home is in the economic interest of the United States, clearly indicate the need for continued emphasis on the humanitarian aspects of the Title II programs.

We would encourage the Congress to carefully consider our recommendations that follow:

• Reaffirm the U.S. intent of Title II in terms of serving humanitarian needs.

The voluntary agencies have developed efficient, effective food programs. However, over time those U.S. Government agencies administering the Title II program have placed more and more emphasis on the developmental aspects of the program to the detriment of the humanitarian purposes. We do not deny the need for development if these lesser developed countries are to make forward strides in improving the quality of life, but there are countless other programs in the Agency for International Development which can assist in those efforts. We believe the Title II, Food for Peace Program should be just that—food for peace providing needed humanitarian food assistance while countries develop their resources.

• Recognize the importance of processed, value-added commodities not only to the recipients overseas but also to the economy of the United States.

For every dollar's worth of farm products exported in processed form, a tremendous ripple effect takes place increasing employment, personal income, our balance of trade, and the Gross National Product—major determinants of national productivity. When raw agricultural commodities are processed and exported the additional gross output to the economy increases 2.7 times, employment increases 2.8 times and tax revenues increase 2.9 times.

• Amend Section 201(b) of Public Law 480 to raise the minimum tonnage requirement from 1.9 million metric tons to 2.0 million metric tons.

An increase in the minimum tonnage requirement of 100,000 tons could be easily accomplished and would help address increasing world food needs.

• Amend Section 201(b) of Public Law 480 to raise the subminimum tonnage requirement from 1.425 million metric tons to 1.6 million metric tons.

The current minimum tonnage mandated by law for use in the Title II program is 1.9 million metric tons. Unlike Title I or other government programs, Title II is successful, among other reasons, because of the voluntary agencies—the program cannot work without them. Therefore, of that 1.9 mmt, a subminimum tonnage of 1.425 mmt is legislated for use by the voluntary agencies and the World Food Program in their regular ongoing programs. The remaining tonnage is reserved for emergency programs and government to government programs. Experience has shown that in severe emergency situations, supplemental appropriations have been approved by Congress. Because tonnage has been reserved for emergency situations and very often has not been needed, there is a last minute rush to program that tonnage and experience has shown it is too late to be easily utilized in regular food assistance programs. An increased subminimum tonnage would give the voluntary agencies additional resources for their traditional programs.

• Amend Section 201(c) of Public Law 480 which currently requires that 75 percent of the subminimum tonnage level (1.425 million metric tons) be in the form of processed, fortified or bagged commodities to a requirement that the 75 percent apply to the total minimum tonnage level rather than the subminimum and that no more than 300,000 tons of the 75 percent be in the form of bagged whole grain commodities.

The original 75 percent requirement was an amendment to Public Law 480 approved as part of the 1985 farm bill. The intention of the requirement was to assure the nutritional quality of products used for the regular ongoing food programs. The inclusion of bagged commodities was a last minute addition to the provision and allows bagged wheat, corn and sorghum to be calculated as part of the 75 percent.

We feel that the nutritional quality of the products should be preserved in the entire program and is as important in emergency programs as the regular ongoing food programs. Expanding the 75 percent requirement to the entire Title II program would give the voluntary agencies additional flexibility to meet the nutritional needs of all their programs.

The bagged whole grain commodities are an important part of Title II in certain country programs as well as for purposes of monetization. They do not, however, enhance the nutritional quality of the program and do not meet the original intent.

To maintain the nutritional integrity of the program as well as to recognize the importance of the bagged whole grains, we recommend a maximum of 300,000 tons of bagged whole grains be permitted under the 75 percent provision. This tonnage figure is above what has normally been procured in this category and, therefore, in no way decreases the historical use of these commodities.

• Support the provision that up to 10 percent of the aggregate value of Title II commodities distributed under non-emergency programs may be sold or bartered by PVO's and co-ops annually when the generated local currencies are used to enhance the objectives of the Title II program.

The increasing operational and administrative costs associated with the Title II food programs have made monetization an important source of additional cash to meet some of these costs. We support the monetization of commodities when the proceeds are used to enhance Title II programs such as buying needed equipment for mother/child health care centers or school lunch programs, improving transportation needs so commodities can be more easily moved, purchasing computers for use in commodity control, helping to develop new programs and providing assistance with administrative costs.

• Provide stronger, more explicit language which would insist upon administrative approval of Title II programs on a multi-year basis.

The current provision for multi-year programs is not being implemented. Multi-year program approvals would assure continuity of programs, would eliminate yearly start-up delays, and would reduce the need for repetitive paperwork and reporting systems.

• Support the need for simplifying program procedures and auditing requirements.

While all participants in the Title II program recognize and embrace the need for accountability, it must be placed in the proper perspective so that emphasis can once again be placed upon conducting effective programs rather than on the burdensome weight of administrative and reporting requirements.

Conclusion

We are hopeful that Congress will give Public Law 480, Title II the strong endorsement it needs to remain a means through which our farm commodities are made available to the hungry and malnourished of the world and to be an effective and continuing export outlet for American agriculture.

The burdens of Title II accountability, lack of sufficient funding and, at times, lack of U.S. Government support in overseas missions have acted as disincentives to the voluntary agencies in conducting food programs. These shortcomings must be corrected if the United States is to continue to maintain a viable humanitarian food program.

The membership of Protein Grain Products International is pleased to be a part of this most worthwhile program and is committed to working with the voluntary agencies, the U.S. Government and other industry interests in making it the most efficient, effective program possible.

Bread for the World,
A Christian Citizens' Movement in the USA,
Washington, DC, February 6, 1990.

Sen. Patrick Leahy,
Chair, Senate Agriculture Committee, United States Senate, Washington, DC.

Dear Chairman Leahy: Enclosed is Bread for the World's testimony for the record relating to the Agriculture Committee's reexamination of the United States food aid programs. We appreciate the opportunity to provide views on these important public policy questions.

Sincerely,

Larry Hollar,
Director of Issues.

Enclosure.

TESTIMONY OF BREAD FOR THE WORLD BEFORE THE SENATE AGRICULTURE COMMITTEE ON THE PUBLIC LAW 480 FOOD FOR PEACE PROGRAM

Mr. Chairman and members of the Committee, Bread for the World appreciates this opportunity to share its views with the Committee as you begin the process of reexamining the Public Law 480 Food for Peace program. We are grateful for the Committee's interest in and leadership on these issues because Bread for the World believes that U.S. food aid can contribute to food security and sustainable development in the Third World. The criticisms leveled at food aid, from a variety of perspectives, over the years need to be squarely addressed so that a revised program can consistently enhance food security.

Summary

We believe that under the current food aid program:

1. Strategic and political objectives receive first priority;
2. Market development also receives high priority; and
3. Development goals receive less priority.

Food aid goals should be redefined, so that the success of the U.S. food aid program is measured not by what quantity of U.S. surpluses are transferred to the Third World but by how skillfully U.S. commodity resources can be integrated into Third World development needs.

Food aid can have a positive impact in:

1. Crisis response, by helping to sustain life in times of war or unpredictable natural disasters with food, cash or other short term assistance;
2. Crisis prevention, through aid emphasizing building of food reserves and more effective use of Early Warning Systems;
3. Sustainable development, by contributing to countries' comprehensive strategies for sustainable development.

Need should be established as the principal criterion for receipt of U.S. food assistance and a set of objective measures applied to all potential loan and grant recipients. Food aid will work better if people who are affected have a greater say in food aid decisions. New relationships, especially regional and national alliances, can help foster food self-reliance. Finally, food aid planning should include time-goals to phase out a country's reliance on food aid.

Background

Throughout its 16-year history Bread for the World has had food security at the center of its concerns. In 1975 Bread for the World issued a working statement, entitled "The Right to Food," which declared that U.S. food policy should be committed to food security and rural development. In a background paper published in 1978, Bread for the World pointed to the multiplicity of goals under Public Law 480 as a barrier to food aid contributing to food security and sustainable development. In its recently published "Guidelines for United States Policy on Agriculture and Rural Communities" (a copy of which is attached) [2] the Bread for the World Institute on Hunger and Development affirmed that food security is "assured access for every person to enough nutritious food to sustain human life."

THE RIGHT TO FOOD

Much has changed in the developing world and in the role played by the United States in world food aid since the food aid program was created in the 1950's. Nevertheless, Bread for the World continues to believe that it is the right of every person on Earth to a nutritionally adequate diet by production or purchase, or by transfer if necessary on as short a term as possible. The realization of this right has proven very difficult for many people in the Third World. Productivity and access to economic resources both play a role. U.S. food aid, especially as it is used as a resource for development that is equitable, participatory and sustainable, can make a positive contribution to the exercise of this right.

Weakness of Present Programs

The current Public Law 480 Food for Peace legislation requires that the food aid program serve many masters—market development, expansion of trade, support for

[2] "Guidelines for United States Policy on Agriculture and Rural Communities" is retained in the committee file.

political objectives as well as combating hunger and assisting development. Bread for the World believes food aid as administered at present overemphasizes strategic and political objectives and market development designed to promote the sale of U.S. surpluses, and consequently gives insufficient emphasis to food security and development priorities.

STRATEGIC AND POLITICAL OBJECTIVES RECEIVE FIRST PRIORITY

We believe that food should not be used as a bargaining chip in the achievement of short term U.S. political and strategic objectives. Yet strategic and political goals dominate Public Law 480 decisionmaking. This is demonstrated historically by the levels of U.S. food assistance to Southeast Asia during the Vietnam era and the high levels of food assistance to Central America during the 1980's while the United States has pursued an intensive military and economic strategy in the region. In 1989 El Salvador, Kenya, Morocco, Pakistan, Sudan, and Zaire were all major recipients of Public Law 480 Title I and Title III assistance. Each of these countries also ranks in the top 20 recipients of U.S. military assistance. In concert with Economic Support funds, food aid sales provide an additional resource for balance of payments support in strategically important nations like Egypt, Pakistan and Morocco.

Second, it is highly questionable whether strategically determined food aid actually provides substantial benefits to the most needy people in those nations. In El Salvador, for example, studies have shown that food aid has undermined capabilities to develop locally sustainable food systems, and relieved the government of pressure to effect more fundamental changes in agricultural development policies and undertake needed structural change. Since 1980 per capita income in El Salvador has declined by 25 percent, and malnutrition afflicts more than 60 percent of the population.

Egypt, which has consistently received the largest amount of Title I food aid, must still import 50 percent of its food. This suggests that food aid programs for Egypt have not been linked rigorously to food self-reliance objectives. BFW is also concerned about the use of food aid to reward countries that have implemented AID economic reform programs or World Bank and IMF structural adjustment programs. As currently designed, many reform programs undermine rather than promote enhanced food security by requiring removal of food subsidies, cuts in government spending and increased exports leading to reductions in food crop production. Bread for the World believes that food aid should not be used to ameliorate the effects of reform programs if the underlying policies in the programs are flawed.

MARKET DEVELOPMENT GIVEN HIGH PRIORITY

From its origins in an era when large commodity surpluses were being generated by U.S. agriculture, the food aid program has always had market development as a strong component of its activities. For Third World countries this has meant that food aid allocations have been driven more by which products the United States has to give away or sell at concessional terms than what Third World needs are. Thus urban dwellers in Central America and Africa have been encouraged to rely on breads made from imported wheat and other products as opposed to their own traditional, often maize-based foods.

DEVELOPMENT GOALS RECEIVE LESSER PRIORITY

Food allocations have not given due weight to needs criteria. In 1989 Public Law 480 Title I allocations of $91 million went to nine countries in sub-Saharan Africa whose average per capita GNP is $378 per year. In the same year, Egypt, with a per capita GNP of $680 per year, received an allocation of $177 million, nearly twice as much as all of sub-Saharan Africa combined.

Redefining the Goals

Ten years ago Bread for the World raised concern over the multiplicity of goals that the Public Law 480 program has sought to serve. We believe that our statement remains true today and that a much clearer, more singularly focused set of goals is needed which place U.S. food aid more properly within the broader context of U.S. development assistance objectives. We believe further that any redefinition of food aid goals must be made in consultation with potential beneficiary countries in the Third World.

Food aid can be a significant resource in a U.S. foreign assistance program the goal of which is to support and encourage equitable, participatory and sustainable development in the Third World. Sustainable development is a very complex process

and will involve a variety of programs and initiatives. Development is neither broad based nor equitable if the primary beneficiaries are all from one social or economic class. Likewise development strategies have little hope of success if the needs and concerns of all sectors of society are not represented in the decisionmaking process. Finally, there is no real development if gains are only temporary and cannot be replicated because gains were built on non-renewable human and natural resources. Any food aid initiatives must take these factors into account.

Food self-reliance is a cornerstone of sustainable development. Food self-reliance implies the reliable access to food to sustain productive human life, making possible the survival and nurturing of the human resources that are the basis and reason for development. Food aid can contribute to food self-reliance only if it is carefully harmonized with agricultural production, pricing structures, and infrastructure to facilitate distribution. Critical external factors that also must be considered are terms of trade, access to export markets, access to credit, and levels of debt.

Food aid alone cannot build sustainable development. **The success of the U.S. food aid program should be measured not by what quantity of U.S. surpluses are transferred to the Third World but by how skillfully U.S. commodity resources can be integrated into Third World development needs.**

Bread for the World notes, more specifically, three distinct areas in which food aid can have a positive impact on sustainable development.

1. Crisis Response;
2. Crisis Prevention; and
3. Supporting Sustainable Development.

HARMONIZING EMERGENCY AID AND LONG-TERM DEVELOPMENT

Food aid programs can help sustain life in times of war and unpredictable natural disasters—hurricanes, earthquakes et cetera—with food, cash or other short term assistance. Response to this type of disaster has come under the Public Law 480 emergency program. Bread for the World believes that the present program relies too heavily on commodity assistance. In these situations commodity aid should be used only where it can be shown that food aid is critical and that neither local nor regional food stocks are available. In some cases cash or other forms of assistance will be a more appropriate response. Any such assistance should not be so large as to have a longer term negative impact on local food production and food consumption. It should not create dependencies for imported commodities for which there are no resources. Emergency feeding should not be a substitute for development of agricultural resources and capacity even in temporarily occupied areas.

Nor should emergency food aid be provided to accomplish strategic and political objectives in areas involved in protracted civil conflict. U.S. long-range food aid policy, with respect to conflict zones, should be consistent and timely and should promote food self-reliance, strengthen local capacity for disaster management, and assure equal access to humanitarian assistance to all people of the region without regard to political, religious or other allegiance or to their location.

CRISIS PREVENTION

The administrator of the food aid program should undertake special initiatives for areas where food crisis might be prevented through a multi-year program that emphasizes the building of national, regional and international food reserves to deal with shortfalls. For example, in the Horn of Africa or the Sahel, critical food shortages tend to be cyclical or are chronic and result from natural and man-made conditions. In these areas food aid should focus on crisis prevention.

We have been unable to determine whether the Early Warning System that identifies potential threats to food production has any connection to the process of decisionmaking for food aid allocation. But a clear linkage between the two would clearly be beneficial. It seems apparent that, despite the technical early warning capacities that currently exist, political considerations are still a major factor in at least some food aid decisions.

Whether crisis prevention assistance would be in the form of loans or grants would be based on an assessment of need and ability to pay. Any country eligible based on needs assessment would likely qualify for grant assistance. A measure of the success of this initiative would be reaching the level of food self-reliance that involved the ability to purchase certain food stocks. Loans under such an initiative could be repayable in local currency which would be designated for use as an additional development resource.

In all cases these efforts must be complimentary to expanding overall productive capacity and promoting crisis-resistant production through less vulnerable cropping

systems. The specifics of the food aid response would be the result of the local decision on what mix of commodities, cash, or other resources would best serve the local long term development needs of the area. For this aspect of the program to be successful, local, regional and international food and development assistance resources must be coordinated effectively.

SUPPORT FOR SUSTAINABLE DEVELOPMENT

U.S. food aid must contribute to countries' comprehensive strategies for sustainable development. Some countries that have experienced insufficient growth and diversity in food production for local consumption and have consistent patterns of nutritional deficiency point to the need to develop or expand such comprehensive strategies. Food aid should contribute to, and not hinder, that process.

Until local production capacity and economic resources enable each country to meet local needs and demand, food aid programs may be able to make a positive contribution to the nutrition needs of particularly vulnerable segments of the population, especially women and young children. The nurturing of human resources is critical to long term development. However, such efforts must always be seen as short term and the emphasis must be placed on provision of nutritional supplements rather than substitution for locally produced basic commodities.

Beyond enhancing basic nutrition, U.S. food aid might be used as a resource in building food self-reliance and expanding local food production—through seed stocks, appropriate improvements in seed varieties and the development of infrastructure that will expand access to improve marketing of domestic agricultural products. In each instance, the building of self-reliance would be the principal goal and aid interventions would be seen as strictly short term. For example, a food for work program using food to pay for the building of roads would need to be part of an overall strategy to develop food production capacity or alternative employment opportunities to generate financial resources for people to grow or purchase their own food. A project that created permanent or even long-term dependence on food assistance would not be acceptable.

Currently under Title II, U.S. private voluntary organizations are permitted to monetize 10 percent of food assistance to cover transportation and other costs associated with the delivery of assistance. The appropriate level of monetization requires much rethinking and the precise levels should perhaps be negotiated on a country by country basis in light of potential impacts on local markets and long term development strategies.

Food aid legislation can also contribute to sustainable development by including provisions which authorize the cancellation or repayment in local currency of past food aid debts owed to the United States by the poorest countries. Eligibility for relief of food aid debts should be based on a country's human rights record, their inability to repay debts, and their implementation of economic reform and development programs that are equitable, participatory and sustainable. We continue to be concerned that the standard eligibility requirements for debt relief, IMF and World Bank structural adjustment programs, often have been harmful to poor people and have produced mixed results at best in terms of increasing economic growth in debtor countries. We have previously provided draft language to the Committee on Public Law 480 debt relief to address this issue.

HELPING THE NEEDIEST

Need should be established as the principal criterion for receipt of U.S. food assistance and a set of objective measures applied to all potential loan and grant recipients. While current legislation already contains general language of this nature, more specific language is needed to give further guidance to the administering agency. In decisions on eligibility for either loans or grants or a combination of the two, each potential beneficiary would be subject to the same needs evaluation. This evaluation requires careful research on who is at risk, and consultation with people and groups who would be affected by the provision of food aid.

Currently the upper limit for eligibility for U.S. food assistance is $930 per capita GNP per year. Bread for the World believes the limit should be adjusted downward to reflect the large number of countries with serious food deficit problems and annual per capita GNP rates below $500. The U.N. designation of "least developed countries"—those with $430 annual per capita GNP—which is also currently used in U.S. Foreign Assistance Act debt relief provisions, might also apply to the food aid program.

Under such an eligibility standard, the grant assistance component (currently Title II) would clearly be the largest part of the food aid program. Participation in

any concessional food aid lending program would represent a kind of "graduation" and mark of success of the total grant program.

Bread for the World believes there should be established a kind of continuum for measuring need in which the two basic elements would be (1) chronic and persistent food problems and (2) chronic economic distress.

Chronic food problems might be identified under three basic categories: (a) insufficient production, (b) chronic nutritional deficiency and (c) access and availability problems, such as infrastructural weakness that prevent needed food supplies from reaching affected populations in times of need.

Measures of chronic economic distress would include the extent of a country's debt burden and degree of vulnerability to commodity price fluctuation. These factors greatly influence a developing country's ability to realize its own development objectives and to make food self-reliance a reality.

MAKING FOOD AID WORK BETTER

• **Ending Participation.**—Present Public Law 480 guidelines and World Food Program criteria call for the close relationship of food aid programs and projects to national food and development planning objectives. Bread for the World believes that an important way to realize this goal is to support efforts to expand the participation of small farmers, urban consumers, women and other vulnerable segments of the society in the planning, implementation and determination of priorities for food self-reliance.

In recent years a number of U.S. private voluntary organizations have also played a critical role in the planning and delivery of U.S. food aid and provided valuable assistance to poor and hungry people in many countries. This role should be encouraged and enhanced. However, with a view toward the sustainability of development efforts, it is imperative that the role of locally based organizations representing and working with vulnerable groups be expanded and enhanced. There is ample evidence of the presence of such groups in many Third World nations and of their interest and ability to be involved in development planning and delivery of resources.

• **New Patterns of Relationship.**—The food aid program will need to expand the experimentation with new local, national and regional alliances to build systems of food self-reliance, if the commitment to strengthen the relationship between food aid programs and projects and long range development objectives is to be realized.

No one country can control all the factors that affect food security: internal mechanisms such as agricultural production, equitable pricing structure, and infrastructure to facilitate distribution as well as external factors such as terms of trade, access to export markets, access to credit, and levels of debt. Food security requires international cooperation. For example, within the southern Africa region there are widely differing food production capacities. Malawi and Zimbabwe in recent years have generated sufficient surpluses of maize to sell to and assist their neighbors. In 1986 the U.S. and the U.S.-based PVO World Vision helped make possible the transfer of Malawian maize to Mozambique. The existence of the Southern African Development Coordination Conference means that a structure for regional cooperation is already in place. This suggests a role for U.S. food aid in helping build regional food security by encouraging development of regional reserves.

SETTING A TIME LIMIT

There are areas of the world where at least some observers predict food aid will be needed into the indefinite future, including Bangladesh and sub-Saharan Africa. Others suggest that effective interventions to support sustainable development can help to reverse this gloomy prospect. Nonetheless, for these and other nations, plans for food security and self-reliant development which rely on food aid should set a time-goal for the end of such aid. Accountability for setting such time-goals must fall equally on the shoulders of aid agencies, host governments, U.S. private voluntary organizations involved in food aid programs, and local organizations representing beneficiary groups.

CONCLUSION

Bread for the World appreciates this opportunity to present views as the Committee undertakes this important review of the Public Law 480 program. We look forward to continuing to work with the Committee as it moves ahead with this effort.

PREPARATION FOR THE 1990 FARM BILL

Impact of Agriculture on Ground Water: Opportunity for Action

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THURSDAY, JANUARY 25, 1990

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 9:38 a.m., in room SD-192, Dirksen Senate Office Building, Hon. Patrick J. Leahy (chairman of the committee) presiding.

Present or submitting a statement: Senators Leahy, Harkin, Conrad, Daschle, Baucus, Kerrey, Lugar, Dole, Helms, Cochran, Boschwitz, and Bond.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. I constantly have a difficult time getting used to traffic patterns in Washington. I am reminded of one day last year when we had something like 10 inches of snow overnight back home, and two of the schools had the temerity of opening a half-hour late as a result—it was only 10 inches of snow between about midnight and 4 a.m., and the radio talk shows were all covered by people calling up, asking why their taxpayers' dollars were being wasted for slowing up the schools for half an hour for only 10 inches of snow. If we had had 2 or 3 feet, they could understand, but 10 inches, no.

In Washington, though, apparently, we find that the rain is a difficult thing. People find it such an unaccustomed and amazing thing that traffic stops. A quarter inch of snow, of course, we would declare an emergency. We used to have a difficult thing—when we had half an inch of snow, they would announce that all "nonessential" government employees could stay home. That caused a greater traffic jam because nobody wanted to be declared "nonessential", so even those who would normally stay home had to come to work. They then realized if they said all "essential" government employees stay home, they would.

That is a lead-in to express my apologies for being late; what is normally a 15-minute drive took 2 hours, and I understand Senator Lugar is also caught in the traffic jam. I mention that because Senator Lugar is usually about the first person in the Senate to be here in the morning.

So I will start my opening statement and then go to Secretary Yeutter and Administrator Reilly, and then other Senators, of course, who have opening statements, and we will break in for Senator Lugar when he gets here.

In the committee's field hearings held last year, and also in conversations with people from my own State of Vermont, I have been struck by the rising fear over ground water contamination—particularly pollution by agricultural chemicals.

Every poll we see around this country underscores the same fear. Iowa farmers—with firsthand experience handling dangerous pesticides—ranked ground water among the top three concerns (Iowa State University poll, 1988). In Iowa 9 out of 10 farmers want to reduce their use of agricultural chemicals (University of Iowa, 1988).

These farmers—and their counterparts around the country—know the downside of heavy pesticide use. They know the danger to them, their families and community—and the urgent need for Washington to do more to protect their environment.

For them, it is not some abstract policy debate. It is a question of life and health.

Clean ground water is the lifeblood of rural America. For over 100 million Americans, it is a basic human need—from drinking to cooking to bathing. In addition, it is necessary for irrigating crops, supporting surface waters, sustaining wetlands and fueling local industry.

There once was a time—merely a short decade ago—when we thought ground water was pristine and clean, safe from human activity on the ground above. We would bottle it and sell it to other parts of the country, we were so proud of it. We thought the chemicals used to grow our crops would somehow not reach down into the water table.

We now know we were wrong and this is no longer true.

Powerful economic interests have prevented action on this issue.

And in some areas—like nitrate contamination—the Federal Government has been asleep at the wheel. The past administration, for example, followed the ostrich and hid its head in the sand.

I hope this administration will reverse that, because each year, over 800 million pounds of pesticides—over 3.25 pounds for every man, woman and child in this country—are used in agriculture. Another 10 million metric tons of commercial nitrogen fertilizer are used.

These chemicals are poisoning our water.

The problem is not localized to one or two small areas. It exists across our great expanse. For example:

Twenty-two percent of the farm drinking water wells in Kansas were contaminated by nitrate, far exceeding Federal standards of 10 parts per million. In Minnesota, it was 23 percent.

In my prepared statement I have included some other examples I will not go into now, but they will be made a part of the record.

The more we look for pesticides, the more we find.

Pesticides and nitrate in drinking water are health issues. Not only is elevated nitrate known to cause infant blue baby ("methemoglobinemia"), other research suggests correlation with

other illnesses, including cardiovascular disorders, hypertension, cancer, and congenital malformations.

A recently published Nebraska study showed a twofold increase of non-Hodgkin's lymphoma in counties with elevated nitrate. Some other examples are in my prepared text.

Despite the fear of polluted rural ground water, no comprehensive legislation has been developed to address the threat of ground water pollution. Ground water is virtually ignored under the Clean Water Act and Safe Drinking Water Act. Neither law safeguards the private wells that supply water for 13 million rural households. In fact, these owners are simply left on their own.

When private wells become contaminated—just to put this in perspective, people think this is a no-cost thing, even on the economic side, aside from the health aspect—the costs of purchasing water purification units could exceed $1,000 per household.

In all of this, it is rural America that is left holding the bill.

There is only one way to face a challenge as critical as this. We have to all work together—farmer and environmentalist, government official and industry executive. We may disagree about strategy, but our goals are the same, or they should be—the health of our people, the health of our children, the health of the next generation.

Unfortunately, instead of rolling up their sleeves and finding solutions, some have chosen name-calling and finger pointing—a shameful and useless exercise to shift blame and avoid responsibility.

It is wrong to claim that environmentalists are forcing needless and unwanted regulation on farmers. Farmers and environmentalists both want to preserve the land and ensure the public health, without sacrificing economic growth.

We should not try to set farmers against environmentalists or vice versa. They are in this together. They are all Americans. They are all people who are concerned about the safety of their children, their families and themselves. This is a time to bring all groups together, not for a political reason or anything else, and to use rhetoric that separates concerned people.

As we begin discussing the 1990 farm bill and other ground water legislation, we are armed, perhaps for the first time, with enough information to move forward with a Federal response. Research must continue.

But we also know something else. Time is not on our side. If we contaminate ground water, it may be lost for generations.

We cannot afford the luxury of standing still, waiting for more facts.

We cannot afford to lose precious opportunities to save our essential ground water resource.

We can no longer claim "insufficient data" as an excuse for Federal inaction.

I am ready to work with this administration; I am ready to work with the farmers, environmentalists and everybody else. We will not allow this committee, though, to be put in the position of setting one against the other. We are all in this together. Let's drop the rhetoric and get on with the reality.

[The prepared statement of Chairman Leahy, Poll Highlights, and other attachments follow:]

PREPARED STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

In committee's field hearings held last year and in conversations with Vermonters, I have been struck by the rising fear over ground water contamination—particularly pollution by agricultural chemicals.

The polls underscore this fear. Iowa farmers—with firsthand experience handling dangerous pesticides—ranked ground water among their top three concerns (Iowa State University poll, 1988). In Iowa, 9 out of 10 farmers want to reduce their use of agricultural chemicals (University of Iowa, 1988).

These farmers—and their counterparts around the country—know the downside of heavy pesticide use. They know the danger to them, their families and community—and the urgent need for Washington to do more to protect their environment.

For them, it is not some abstract policy debate. It is a question of life and health.

Clean ground water is the lifeblood of rural America. For over 100 million Americans, it is a basic human need—from drinking to cooking to bathing. In addition, it is necessary for irrigating crops, supporting surface waters, sustaining wetlands and fueling local industry.

There once was a time—merely a short decade ago—when we thought ground water was pristine and clean, safe from human activity on the ground above. We thought the chemicals used to grow our crops would somehow not reach down into the water table.

We now know we were wrong and this is no longer true.

Powerful economic interests have prevented action on this issue.

And in some areas—like nitrate contamination—the Federal Government has been asleep at the wheel. The past administration, for example, followed the ostrich and hid its head in the sand.

Each year, over 800 million pounds of pesticides—over 3.25 pounds for every man, woman and child in this country—are used in agriculture. Another 10 million metric tons of commercial nitrogen fertilizer are used.

These chemicals are poisoning our water.

The problem is not localized to one or two small areas. It exists across our great expanse. For example:

—Twenty-two percent of farm drinking water wells in Kansas were contaminated by nitrate, far exceeding Federal standards of 10 parts per million (ppm). In Minnesota, it was 23 percent.

—In southern California—our second largest urban area—4 percent of the drinking water supply is lost to nitrate contamination (State Water Resources Control Board, 1988). Data stored by the Federal Government show elevated nitrate—often exceeding the drinking water standard—in nearly every agricultural State.

—By 1988, EPA had found 46 pesticides in the ground water of 26 States—all there because of normal agricultural use.

—EPA found the pesticide Aldicarb at levels above the drinking water standard in nearly 15 percent of samples taken in Florida, New York, and Wisconsin. Aldicarb has also been detected in 31 counties across 11 States as a result of normal agricultural use. Nearly 2 years ago, EPA proposed having States take the lead role in Aldicarb regulation. Final action has yet to be announced.

—Another pesticide, Atrazine has been found in the ground water of 22 States. Although EPA is considering having Atrazine placed in the restricted-use category, this is not enough.

—Alachlor, a probable carcinogen, has been found in the ground water of 19 States. In some instances, it has made its way into our homes, through tapwater from contaminated rivers.

The more we look for pesticides, the more we find. New, unpublished data show that pesticides break down into other persistent substances overlooked in most monitoring studies. This may only be the tip of the iceberg.

Chemical testing is spotty. Often, it is done at wells currently used for drinking water. These wells represent only a fraction of our Nation's ground water supplies. The quality of all other ground water is unknown. Future supplies of fresh water may be unknowingly contaminated if we follow our present course.

Pesticides and nitrate in drinking water are health issues. Not only is elevated nitrate known to cause infant blue baby ("methemoglobinemia"), other research

suggests correlation with other illnesses, including cardiovascular disorders, hypertension, cancer and congenital malformations.

—A recently published Nebraska study showed a twofold increase of non-Hodgkin's lymphoma in counties with elevated nitrate. The study suggests that pesticides may also be a factor.

—A 1978 Colorado study suggests a correlation between elevated nitrate in drinking water and the early onset of hypertension.

—A 1986 study published in the Journal of the American Medical Association found a sixfold increase of non-Hodgkin's lymphoma among farmers exposed to herbicides more than 20 days each year.

—Nitrosamines—formed by nitrate-derivatives with some pesticide products and other substances—are considered cancer-causing.

—There is concern over the chronic health effects from long-term exposure to low levels of pesticides, pesticide breakdown products, inert ingredients, and multiple pesticides.

—Dr. Dennis D. Weisenburger, University of Nebraska, in a 1985 paper wrote:

> The markedly increased risk of leukemia (80 percent) and lymphoma (70 percent) in young farmers in Nebraska, and Wisconsin, respectively, suggests that exposure to one or more agricultural chemicals, first introduced and used in significant quantities in the late 1940's and early 1950's, may be important in the etiology [i.e., the cause or origin] of lymphoid malignancies in farmers.

Despite the fear of polluted rural ground water, no comprehensive legislation has been developed to address the threat of ground water pollution. Ground water is virtually ignored under the Clean Water Act and Safe Drinking Water Act. Neither law safeguards the private wells that supply water for 13 million rural households. These owners are left on their own.

When private wells become contaminated, the costs of purchasing water purification units could exceed $1,000 per household.

For households connected to public water systems, the costs of treating water to remove agricultural chemicals can be oppressive, especially for small communities. Complying with EPA's proposed standards for 17 pesticides may raise the household water bill by an extra $175 per year for those receiving water from small public water supply systems. Nitrate, which is far more prevalent, cost much more to treat—$340 to $590 annually per household for small systems and between $110 and $210 for medium ones.

Rural America is left holding the bill.

There is only one way to face a challenge as critical as this. We all must work together—farmer and environmentalist, government official and industry executive. We may disagree about strategy, but our goals are the same—the health of our people.

Unfortunately, instead of rolling up their sleeves and finding solutions, they have chosen name-calling and finger pointing—a shameful and useless exercise to shift blame and avoid responsibility.

It is wrong to claim that environmentalists are forcing needless and unwanted regulation on farmers. Farmers and environmentalists both want to preserve the land and ensure the public health, without sacrificing economic growth.

As we begin discussing the 1990 farm bill and other ground water legislation, we are armed, perhaps for the first time, with enough information to move forward with a Federal response. Yes, we need to learn more about agricultural chemicals, the environment and alternative practices. Research must continue.

But we also know something else. Time is not on our side. Once contaminated, ground water may be lost for generations.

We cannot afford the luxury of standing still, waiting for more facts.

We cannot afford to lose precious opportunities to save our essential ground water resource.

We can no longer claim "insufficient data" as an excuse for Federal inaction.

I am ready to work with this administration and look forward to hearing the administration's proposals. The purpose of this hearing is to begin shaping a consensus and a plan to move forward.

[The Poll Highlights and attachments follow:]

POLL HIGHLIGHTS

SUMMARY OF FARMER ATTITUDES ON GROUND WATER AND AGRICULTURE CHEMICALS

Iowa Farm and Rural Life Poll—1989

- Seventy-eight percent of farmers believe modern farming relies too heavily on *pesticides.*
- Seventy-six percent of farmers believe modern farming relies too heavily on chemical *fertilizer.*
- Sixty-nine percent of farmers believe low-input methods would help maintain our natural resources.
- Fifty-six percent would use more low-input if they had enough information.
- Farmers rated insecticides as the greatest health and safety hazard in farming.

Iowa Farm and Rural Life Poll—1988

- Pesticides in drinking water rank among the top three concerns farmers have, following farm prices and the Federal deficit.
- Sixty-three percent of farmers agree that the Government should impose stricter testing of agricultural chemicals before they are released.
- Sixty-one percent of farmers polled agree that greater regulation is needed on the use of chemicals in agriculture.

Agricultural and Food Policy in the 1990's

Poll of 13,000 farmers in 21 States:

- Sixty percent favored conservation and water quality compliance as a condition for receiving program benefits.
- Sixty-one percent agree that Government should regulate land uses to reduce water pollution.
- Less than 45 percent favored any specific regulatory proposal.

American Farmland Trust Survey

- Fifty percent of the farmers in the Midwest agree with withdrawal of program benefits if chemical use exceeds specified limits. Support was much lower in other regions.
- Forty-one to forty-eight percent of farmers agree with mandated pesticide plans if pesticides are found in well water. Support was much less in the West.
- Sixty-five percent of farmers in Illinois favor restrictions on fertilizer where ground water is contaminated (51 percent for Georgia, 43 percent for Minnesota, 25 percent for California, and 38 percent for Washington).
- Over 50 percent of farmers polled in Georgia, Illinois, and Minnesota favored systematic testing of wells by the Federal Government. Support was less in the West (28–31 percent).
- Fifty percent of farmers in Minnesota, Illinois, and Georgia favored bonuses on top of commodity payments if farmers reduce chemical inputs (40 percent in California and Washington).
- Eighty percent in Minnesota, Illinois, and Washington favored greater funding of research and extension into economical low-input farming methods (70 percent in Georgia, 50 percent in California).

Iowa Natural Heritage Foundation Poll

- Seventy-one percent of farmers believe that sinkholes pose a threat to the safety of drinking water. Sixty percent thought the problem was "extremely" serious or "very" serious.
- Ninety-one percent favor Government money to assist in controlling pollution from sinkholes.

Iowa State University Poll

Sponsored by the Integrated Farm Management Demonstration Program (593 farmers polled).

- Good drinking water followed only turning a profit among Iowa farmers' top concerns.
- Twelve percent have cut back on nitrogen use.

• Seventy-two percent of the Iowa farmers favor a law that would restrict nitrogen application to levels appropriate to the soil's yield potential.

UNIVERSITY OF IOWA SURVEY

1988 (200 farmers).
• Ninety-three percent of farmers want to reduce chemical use.
• Eighty-four percent want to reduce chemicals due to concerns over ground water contamination.
• Ninety-five percent want to save money by reducing inputs.

[Agriculture Extension]

MODEL FARM DEMONSTRATION PROGRAM UNVEILED

AMES, Iowa.—A new on-farm demonstration program is another major step in Iowa's move to make farming more efficient, more profitable and less harmful to the environment.

"Iowa farmers are ready to use proven methods that will improve farm profitability and the environment," said Gov. Terry Branstad, announcing the Model Farm Demonstration Program at his weekly news conference.

On Branstad's recommendation, the Legislature has allocated $600,000 per year for the 3-year program, which will be administered by the Iowa Department of Natural Resources and operated by Iowa State University Extension Service.

Starting in the 1990 crop season, the Model Farm program will show hundreds of Iowa farmers how to use farm chemicals more efficiently through demonstrations on their own farms. It was patterned after the Integrated Farm Management Demonstration Program and the Big Spring Basin Demonstration Program, which were established in response to growing concerns about ground water contamination.

The new program expands these efforts into every geographical part of the State. The on-farm demonstration sites will be located in five regions: in southeast Iowa in Des Moines, Louisa and Washington Counties; in northwest Iowa in Sioux County; in north central Iowa in Kossuth County; in western Iowa in Aubudon and Carroll Counties; in south central Iowa in Clarke and Lucas Counties.

In those counties, Extension staff will work with farmers showing them how to refine their management practices. These techniques will include soil testing for nitrogen, potassium and phosphorus, improved recordkeeping, scouting fields for insects, applying herbicides in bands instead of broadcast spraying and conservation tillage.

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"We will encourage farmers to use fertilizers and chemicals wisely and as needed, instead of using blanket applications," said DNR geologist George Hallberg, water quality expert and program administrator. "The key is to increase efficiency and improve profitability, not to eliminate chemicals."

In the Big Spring Basin Demonstration, over 50 percent of the farmers reduced their nitrogen fertilizer use between 1984 and 1987. Twenty-five percent cut back on herbicides.

"It's clear that farmers can increase their net return, reduce energy use and improve the environment, all at the same time," said Extension crop production specialist Kay Connelly, who has been appointed Model Farm project coordinator. "In some of our pilot programs, they have upped their profits by thousands of dollars."

In Butler County, 50 IFM farmers added about $500,000 to their bottom line this year through lowered production costs, averaging $15 to $20 more per acre in profits. They decreased nitrogen fertilizer application by 260,000 pounds.

Three of the five Model Farm regional demonstrations will be based on the Butler County program, which combines a variety of crop production practices and encourages farmers to integrate them into a comprehensive management plan. The projects in other regions will focus on conservation tillage, forages and soil testing.

"After 3 years, the programs will be self-sufficient and could become private enterprises, or be picked up by local agri-businesses," Hallberg said. "We hope this might put jobs on Main Street Iowa—where services, such as nitrogen soil testing, could replace the simple purchase of chemicals."

As the value of the program is demonstrated to farmers, Branstad said he hoped it will spur more farm cooperatives and fertilizer dealers to offer such services.

"Iowa farmers and agri-business recognize and are concerned with water quality problems," Hallberg added. "The Model Farm program is designed to have them work together as partners and help them find the answers."

[Public Information, Iowa State University of Science and Technology, Ames, Iowa, Extension News]

FEDERAL FARM PROGRAMS FAVOR HEAVY FERTILIZER USE

AMES, Iowa.—Federal farm programs favor continuous corn, which requires more nitrogen fertilizer than any other corn rotation system, according to an Iowa State University study.

ISU Extension Service economist Michael Duffy, a farm management specialist, analyzed the Food Security Act of 1985. He compared six different corn rotation systems, using information gathered from the university's Kanawha research farm in Hancock County from 1984 through 1987.

Duffy found that the Food Security Act provides the most benefits to continuous corn farmers. Corn farmers growing crops in long rotations with oats and hay—a system that relies less on commercial fertilizer—receive the lowest subsidies.

"The Food Security Act of 1985 provides the greatest rewards to those who use the most chemicals and produce in one of the most environmentally damaging ways," Duffy said.

"If the government is serious about limiting the environmental impacts from agriculture, the method of income support for agriculture must be examined," he said. Continuous corn is considered the most harmful to the environment because excessive nitrogen fertilizer use may cause ground water contamination.

Based on subsidies, the continuous corn farmer is receiving $69 per acre and the farmer with a corn-oats-meadow-meadow rotation (COMM) is being paid only $19, the lowest of the six rotation systems studied.

Without the current government program, a corn-soybean rotation would be the most profitable while a continuous corn rotation would have the lowest returns, according to the study. The COMM rotation would come in third.

The present government support system penalizes corn farmers growing crops in longer rotations, making it difficult for those operations to be profitable, Duffy said. It also encourages the production of a crop in excess supply, he said.

[New N-TRAK Soil Test Kit for Nitrogen designed by Iowa State University for Iowa Corn Growers, an advertisement, is retained in the committee file.]

IOWA STATE UNIVERSITY OF SCIENCE AND TECHNOLOGY,
Ames, Iowa, January 23, 1990.

The Honorable Senator PATRICK J. LEAHY,
Chairman, Committee on Agriculture, Nutrition, and Forestry, United States Senate, Washington, DC.

DEAR SENATOR LEAHY: I am pleased to respond to the request for my assessment of the potential to improve nitrogen management in Midwest row-crop agriculture, particularly corn. The Midwest Corn Belt is the heaviest user of nitrogen fertilizer in the United States and much of this nitrogen is used on corn. There are numerous other sources of nitrogen to corn, particularly those from legume residues, animal manures, and that residing in the soil organic fraction. However, many years of agronomic research has shown that the achievement of high corn yields often requires supplemental nitrogen fertilizer. Because of the relatively low price of nitrogen fertilizer compared to the increased financial return from greater yields, there is little direct incentive to be conservative with the application of nitrogen fertilizer. Further, nitrogen is a difficult element to manage in agricultural ecosystems due to the possibility of loss from leaching to the ground water or escape to the atmosphere through denitrification. Also, corn grain yields are difficult to predict closely because of weather limitations. Therefore, the tendency is to over apply nitrogen relative to the amount actually needed by the crop.

I have been researching nitrogen transformations and management throughout my scientific career. My research career has included 22 years in Soil Science at the University of Wisconsin-Madison, and I have participated on several national review panels related to ground water pollution and nitrogen management. I have over 150 research publications on nitrogen in the environment, and have published several reviews. I currently direct the Leopold Center for Sustainable Agriculture at Iowa

State University. This is a State-funded unit with the overall objective of developing alternative farming systems consistent with a sustainable agriculture and providing information on these systems to users, policymakers and the general public. Nitrogen management is a key part of these systems.

Recent research at Iowa State University by Dr. A.M. Blackmer and colleagues, and at Wisconsin by Dr. Larry Bundy and co-workers, provides conclusive evidence that, at least under the current climate in the Midwest sufficient inorganic nitrogen is present in the root zone in late spring so that nitrogen fertilizer could still be applied at needed rates so that nitrogen is not limiting corn grain yields. In many cases, the soil nitrogen levels are in excess of that required by the crop, leading to the potential for nitrate contamination of the ground water by leaching of the unused nitrate. These data have been obtained by sampling the root zone in the spring, and comparing grain yields obtained with normal fertilizer additions to those obtained using the lower level of nitrogen predicted by the soil test.

This research has provided us with sound evidence that nitrogen from wastes, fertilizers and soil reserves can be managed more carefully. This will minimize environmental damage and increase profits. Evidence suggests that nitrogen management systems can be designed for Iowa farmers that would lower nitrogen fertilizer use statewide by at least a third without reducing statewide grain production. Profits would be maintained or increased. Further reductions in nitrogen fertilizer use would be possible if much greater use of legumes were to occur. The tradeoff with increased legume acreage would be lowered total corn grain production.

These systems will use current technology and technologies under development. They do not necessarily involve major changes in farming practices. They do involve more on-farm management skills, high technology and most importantly, sound effective information transfer. The use of the systems approach to nitrogen utilization, coupled with proper use of soil tests and residue management techniques, will offer the possibility of major improvements in the efficiency of nitrogen use for grain crops.

Feel free to contact me if you have further questions.

Sincerely,

DENNIS R. KEENEY.

The CHAIRMAN. I yield to the Senator from Montana.

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. I thank the Chairman.

Mr. Chairman, this is a very important hearing, and I am glad that we have two very key administration officials here with us—Secretary Yeutter and EPA Administrator Reilly.

It is not an easy issue. We know the great importance of environmental matters generally, not only to our country but the world these days. We are interrelated, certainly in our own States and the Nation, not only politically but also economically and environmentally. In fact, we are changing the definition of national security these days, appropriately, I believe, to include not only military security but economic security and environmental security as well. Witness the depletion of the stratospheric ozone level, which is caused by many countries, not just a few; the global warming effect caused by greenhouse gases in this country; and certainly, ground water contamination is a part of all this.

I was raised on a ranch, and I can tell you that ranchers and farmers are environmentalists; they have to be to survive in the long-term, and they are.

It is also true that there are some chemicals that, in all probability, are causing some problems. I think the chairman is correct in pointing out that essentially this is going to take cooperation. We know by definition it must take cooperation. And I call on all of us, the administration and the legislative branch, the environmental

community and the agriculture community, to forget the rhetoric, forget the demagoguery, and let's get down to hard facts, analysis, take some of the emotion out of it and figure out what works and what doesn't work.

And certainly, the testimony and the views of our two major witnesses today will go a long way in helping to make that happen. I am here to listen, to learn, and work with the groups that are involved here as well as with the administration.

I thank you, Mr. Chairman, for holding this hearing.

The CHAIRMAN. Thank you, Senator Baucus.

I will yield to the distinguished ranking member of this committee, Senator Lugar, who has been a leader in these issues for a long, long time.

Senator Lugar.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Thank you very much.

Mr. Chairman, I commend you for initiating the committee's 1990 farm bill activities with a hearing on ground water. I think this should serve to send an important message to the agricultural community and the public in general that our committee intends to seriously address environmental issues in this farm bill. I support you fully in sending that message.

In my opinion, agricultural productivity and environmental stability are not incompatible concepts. To the contrary, farmers today are more aware of the impact pesticides and other chemicals have on the environment. I believe that major technological advances in cropping methods and natural resource management have helped the American farmer be a better steward of the land by preserving, conserving and restoring agricultural resources.

In this regard, the conservation provisions of the 1985 farm bill were an important element in encouraging farmers to consider environmental impact more closely. Our task is to expand upon the policies that will make agricultural production and environmental protection more compatible. This will be a formidable task, one which will require our best bipartisan effort. It is a task which must be governed by the notion that we must seek a delicate balance which will maintain America's agricultural prosperity and our position as the world's premier agricultural producer.

Our *fortune* in the debate of ground water is that we are not in the position of having to react to a widespread crisis situation. Our *reality* is the need for timely action to deter unnecessary environmental damage. Our *commitment* must be to a strong resolve to develop simple, cost-effective solutions to achieve our chosen goals.

Such attempts should be clearly focused on meaningful policies which have at their foundation the concept of *pollution* prevention. Quite possibly the most meaningful first steps we could take would be to improve the general understanding of agricultural producers on how to properly and most effectively use agricultural chemicals. Farm programs should encourage, and not discourage stewardship of the land. The Department of Agriculture's research programs should use scientific means to effectively target land on which agri-

cultural production should be scrutinized for environmental reasons.

This is not the time to develop solutions which are embodied in grand research schemes, overzealous regulatory programs, or complicated micromanagement situations.

In this regard, I think it appropriate that we call upon the Department of Agriculture and the Environmental Protection Agency to work jointly to develop and implement effective programs and provide the leadership that is necessary to guarantee results.

I thank you again, Mr. Chairman. I look forward to hearing from the Secretary of Agriculture, Mr. Yeutter, and the Director of EPA, Mr. Reilly.

The CHAIRMAN. Thank you very much, Senator Lugar.

The order the Senators have arrived is: Senators Kerrey, Daschle, Boschwitz, Lugar, Conrad, and Harkin, in that order. Any Senator who has a statement they want to make, please feel free to do so.

Senator Kerrey.

STATEMENT OF HON. J. ROBERT KERREY, A U.S. SENATOR FROM NEBRASKA

Senator KERREY. Mr. Chairman, I appreciate as well your focusing our attention upon an issue that is extremely important. I think an indication of the importance of this subject is the presence here of the Secretary of Agriculture and the soon-to-be Secretary of the Environmental Protection Agency, both with previous experience and demonstrated concern for the management of the soil and the water. In this case, we obviously are focusing our attention upon water.

One of the concerns that I have is it seems to me that what has occurred in the past 40 years is a widening of the gap between the consumer and the producer, for a variety of reasons not the least of which is lifestyle change. And one of the things that I am very much concerned about is the question of how we are going to regulate ground water protection—not are we going to regulate it but how are we going to go about it.

My concern is increasing because we operate in a marketplace governed by the principle that the customer is always right, and consumers themselves may take actions prior to the politicians developing a mechanism enabling us to accomplish reasonable environmental objectives.

I must at this juncture weigh in with one of the things that always seems to occur, and that is that new research findings often cause people to react before reaction is warranted. With all due respect, the chairman of our committee earlier cited a Nebraska study, and I must wade in with some knowledge of that particular study. It was done by the Cancer Institute in Omaha, Nebraska, and they have indeed begun to do some research on environmental conditions not just in water but in soil as well, and one of the things that they have discovered is that there is a perpendicular spike across the central part of our State where there is a higher incidence—twice the normal level—of Hodgkins disease. And one of

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the environmental conditions they have found is a higher level of nitrates, although they have not connected the two.

One of the things that all of us fear is the possibility that these connections are made before we have the regulatory mechanism to respond, or perhaps worse yet, a stampede occurs as a consequence of receiving that information prior to establishing a connection between the two.

Again I emphasize the importance of understanding that the principle that the customer is always right must guide us. I have told my farmers in Nebraska that if the consumers of America decide that they want zero residues, they will have zero residues. If the consumers of America decide they don't like the way we are producing our food, they will be the ones that will make that decision, and we in the end have to sell them the product; but they aren't compelled to buy it.

So it seems to me that those of us in particular who represent States with economies heavily dependent upon production agriculture have to aggressively look for the proper regulatory mechanism.

To that end, Secretary Yeutter, I know that you have worked with our Nebraska resource districts in the past. I have spoken with Ms. Wilcher about the resource district mechanism. I would urge you to look at it, because what it enables us to do—and I understand that not all States have it—but it enables us to develop an individual management plan for each parcel of land so that a farmer can develop a water quality management plan, and we can regulate each parcel at the local level. Some of our resource districts in the Central Platte where this cancer study was done have set very stringent nitrate and pesticide standards. They are achieving objectives that I would daresay if they were included, for example, as a cross-compliance requirement in the farm bill, we wouldn't know what to do. It would be extremely difficult with a top-down regulatory strategy to accomplish the objectives that have been established in these resource districts in Nebraska.

Further and finally, I would point out what I would assume is obvious to both of you gentlemen who will be charged with the responsibility of figuring out what to do and how to coordinate it, and that is that our natural resources tend to flow across State lines. We are set up, 50 States, to carry out regulation, all unfortunately except Nebraska which has chosen not to assume any regulatory authority under FIFRA. Unfortunately for us at times, we have to contend with the fact that the rivers ignore our cartographers' attempt to organize our people.

Specifically, I would recommend consideration of organizing the regulatory effort around the river basin. Obviously, you'll have to engage elected officials at the State level and at the local level, but I urge you to consider the river basin as the defining entity as we try to devise a strategy to accomplish what will likely be very, very difficult regulatory objectives.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

The distinguished Republican leader, Senator Dole, is on the floor, and I have a prepared statement from him which will be, without objection, included in the record.

[The prepared statement of Senator Dole follows:]

PREPARED STATEMENT OF HON. ROBERT DOLE, A U.S. SENATOR FROM KANSAS

Mr. CHAIRMAN. I commend you for holding this initial hearing on ground water. Some have suggested that environmental and conservation issues will be headline news during the 1990 farm bill debate, and so it seems appropriate the year begins with some focus on where we really are on these issues. My view is that farmers should play a lead role in helping address any real problems that may exist in this area. Congress and the administration should work together in researching the issues and developing sensible solutions.

CRP FOCUS

I have long felt, as do several of my colleagues, that the Conservation Reserve Program (CRP) provides a solid base to work from in looking at environmentally sensitive areas. Expansion of this program to include environmentally sensitive land has received a lot of attention. As you know, several years ago I introduced the Environmental Conservation Acreage Reserve Program (ECARP) which would have set up a separate long-term reserve with some added flexibility to address the more complex environmental issues.

MORE INFORMATION NEEDED

There may be legitimate ground water issues to address, but we must make certain the administration has had ample opportunity to fully research these concerns. We should also ensure that farmers have the best information available to implement sound management practices. USDA is taking several positive steps with its ground water initiatives and has worked to coordinate its efforts with other agencies. USDA should be encouraged to keep up the good work.

In the interim, one answer may be found in the old saying "an ounce of prevention is worth a pound of cure." Prevention can certainly be the best cure where real threats to the environment exist. Additional research will play a key role as we move forward. The current level of knowledge in these areas needs to be expanded, and the scope of ground and surface water problems needs to be better defined. At the same time there is a need for additional technical assistance on all fronts. In my view, we should move in this direction rather than establishing a system to penalize and punish the American farmer.

CONCLUSION

Let me say one final word on this subject: in my view, the American farmer has been a true pioneer in the environmental field. It's nothing new to him, so despite what a few critics say, the American farmer has done a tremendous job protecting the environment.

The CHAIRMAN. Senator Daschle.

STATEMENT OF HON. THOMAS A. DASCHLE, A U.S. SENATOR FROM SOUTH DAKOTA

Senator DASCHLE. Thank you, Mr. Chairman.

I would like to welcome our witnesses and commend the chairman for what I consider to be an excellent statement in setting the tone in what I hope will represent, really, the thrust of this committee as we begin exploring these very difficult and sometimes contentious issues.

I think there are a couple of givens as we begin the consideration of the issue. The first given is that we really haven't seen the kind of environmental interest from an agricultural point of view as we have begun deliberating on past farm bills. That concern was always there, but it is not nearly as evident as it certainly is as we begin deliberation on this farm bill.

The second given is that times have changed, and we are going to see an intertwining of the environmental and agricultural con-

cerns in ways that will, I think, make agricultural policy and environmental policy inseparable in the future.

Environment from here on out will be a permanent feature in agricultural policy. We have to accept that, begin dealing with it, and take it as a positive rather than a negative in working together to try to resolve the many dilemmas we face in crossing the many precarious bridges we must cross in making this a successful effort in the future.

As we consider that if it is a given, I think there are three concerns as environment relates to agriculture in 1990. The first concern I have is I don't believe we really have the research necessary to make some of the fundamental decisions about environmental policy as it pertains to agriculture that we should have. And I hope this committee addresses that.

The second concern is that I don't really believe we have the educational process, structurally or organizationally, with the Department of Agriculture or perhaps even in the EPA, to deal with the agricultural aspects of environmental policy as I think we should.

And the third is that I don't believe there is adequate coordination. It is not the fault of the Department necessarily, it is not the fault of EPA; certainly, in part, I think the Congress itself must shoulder some of the responsibility for the lack of coordination. But clearly, lack of coordination is one of the concerns that I have going into the questions that we will address as we begin to write environmental policy from an agricultural perspective in the future.

Because I have those three concerns, today I am introducing a bill that will attempt to address them.[3] I am hopeful that we can fold many of my suggestions as I propose them in this legislation into farm legislation. It is not meant to be all-inclusive. It is only meant to be a beginning. It is meant to address those very limited concerns in what I consider a much greater universe of concern that we as policymakers dealing with a very significant piece of legislation in the 1990 farm bill will have to address as we face the future months.

But again let me thank the chairman for his leadership, for taking the leadership as he has and for setting this as a high priority that I certainly share, and I think is shared by the vast majority of members of the agricultural community in the country today.

The CHAIRMAN. Thank you very much, Senator Daschle.

Senator Boschwitz.

PREPARED STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. Mr. Chairman, I would like to describe my approach to environmental matters as they deal with the farm bill because I think it is important that we consider the impact of farm programs on the environment.

First of all, farmers are by definition environmentalists, and they want to be environmentalists. Their principal asset, land, is

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[3] S. 2024, Agriculture and Ground Water Policy Research and Education Coordination Act. Some provisions included in S. 2830.

involved, and they certainly want to preserve it. Good environmental practices do that.

Farmers drink the water. Unlike many of us who live in the cities, they drink water that is ground water rather than water that comes from reservoirs.

I also am very cognizant of the fact that many of the environmental problems that are found in rural America have been encouraged, really, by the farm programs that we have passed in past years. Senator Lugar remarked that we should pass farm programs that encourage stewardship; we have not done that in the past. Target prices and payments that are based on production really encourage more production and greater use of chemicals. While many in the committee have felt that target prices are too low, as a practical matter they have been high enough to cause marginal land to be brought into production, the type of land that should not be brought into production. Then, in turn, we pay to take it out of production. As we often do, first we go in one direction, then in the other.

Furthermore, there not only has been a "race for base" as they say, but there also has been a race to produce higher yields, because payments were based on yields. Yields could be increased, of course, by the increased use of chemicals.

Then we had set-asides. Set-asides led to more intensive agriculture on the remaining land because you had to pay the mortgage payment and the taxes from 90 percent or 80 percent or even 70 percent of the land that you could farm if you went into the farm program.

The programs also required the planting of specific crops. If you practiced crop rotations you would lose the base.

Stewardship really took a back seat. As we work on the 1990 farm bill those kinds of considerations are perhaps the most important environmental considerations that we can make.

The result has been also that the principal asset of the farmer—his land—has risen in value as these yields, induced by the farm programs, have risen. And it is important that we not legislate in such a manner that we are going to undermine the basic value of the basic asset of rural America.

In 1985, Senator Boren and I introduced a decoupling concept. We froze yields. We proposed lower loan rates so that we would not encourage production because variable costs of production would be less than the loan. We also did not require production in order to receive the payment. One of our primary considerations was the environmental impact of our proposal. Hopefully there will be enough flexibility in this new farm bill so that farmers will not have to plant for the program rather than for the markets or for the stewardship that is required on their land.

approach the 1990 farm bill on the basis that farmers are environmentalists. They want to be. Secondly, farmers' basic asset, the basic asset of rural America, should not be undermined by our legislation. Thirdly, the recognition that much of the environmental damage that has occurred in rural America really has been induced by the farm legislation passed by this committee and by Congress.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Boschwitz.

Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman.

How much of an increase in target prices might I be able to negotiate for waiving my opening statement?

The CHAIRMAN. Well, at this point, as Secretary Yeutter has been waiting patiently to give his opening statement, he is probably in the best mood he'll ever be in to negotiate that. [Laughter.]

Senator CONRAD. Maybe we could talk about those advanced deficiencies.

In the interest of time, I will have my statement entered into the record and waive my right to opening statement at this point.

The CHAIRMAN. God bless you.

Senator BOSCHWITZ. I might object.

The CHAIRMAN. I must admit that you have now enhanced your standing with the chairman, too.

Senator CONRAD. I thought that might be the case.

Senator BOSCHWITZ. He had to do something. [Laughter.]

[The prepared statement of Senator Conrad follows:]

PREPARED STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

It is a pleasure to be here for this important hearing. Chairman Leahy has been a leader in bringing environmental issues to the forefront in this committee.

I want to welcome Secretary Yeutter of the Department of Agriculture and, soon to be, Secretary Reilly of the Environmental Protection Agency. It is a pleasure to see you both this morning.

We all agree that high water quality and the safe use of farm chemicals are of great importance to farmers and to consumers. Those are worthy goals. Of equal importance, however, are the means we use to reach those goals.

Farmers want to be good conservationists. It is critically important to develop a positive, incentive-based approach rather than a punitive, regulatory approach. Farmers want to do the right thing: we need to harness that good will.

To adopt and use agricultural practices that will protect our ground water, farmers need three things: first, accurate, timely information about best management practices; second, adequate research so they have sensible and economical alternatives; and third, positive incentives to reduce chemical use.

We also must deal with public fears about food safety, some based on sound information, some not. Something we can do is address the issues that raise those fears. We clearly need additional research to develop more biodegradeable pesticides, herbicides, and fungicides. These substances would provide a safer, more natural method of dealing with the agricultural pests, fungi, and weeds that threaten the quality and quantity of food produced in this country.

Above all, the 1990 farm bill must deal with ground water and food safety issues in an economically and scientifically sound manner. That is the responsible thing to do. The failure to act responsibly will, in the near term, mean burdensome regulations and restrictions on agriculture. A failure to act responsibly would hurt the interests of farmers and consumers alike.

Let me emphasize once again how important a positive, incentive-based approach to environmental problems is. The implementation of the swampbuster provisions of the 1985 farm bill in my State has been counterproductive. First, the penalty for even the smallest violation is the loss of all farm benefits—a bankruptcy sentence in the current farm economy. Farmers objected to the U.S. Fish and Wildlife Service's aerial surveillance and reports of potential violations. In addition, environmental groups and the FWS argued that every potential damp spot—places that got wet every few years—was a wetland and had to be saved. It should be clear that farmers will not respond positively to these types of tactics.

However, there is a great reservoir of good will among farmers and the desire to respond favorably to environmental needs. With the right policies—accurate information, sound research, and positive incentives—we can tap that good will.

The CHAIRMAN. Senator Harkin and then Senator Bond.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA

Senator HARKIN. Mr. Chairman, I'll follow the lead of my distinguished colleague from North Dakota and just ask unanimous consent that my opening statement be made a part of the record.

I only have one comment. Mr. Secretary, I just read over your statement. There is really nothing in there that I disagree with; I agree with all of it except one sentence on page 199 in which you say "Although agricultural chemicals are not yet a serious health problem in ground water, * * *".

[See p. 198 for the referred to prepared statement of Mr. Yeutter.]

I suppose nationwide, you might say that, but in specific areas it has become a very serious health threat and demonstrably so in terms of high nitrate levels in ground water. So I would hope that you would look at certain specific areas where it is a serious health problem in ground water.

The only other comment I have is that I am heartened by all of the different things that you have put in to assist the educational and technical assistance programs, integrated pest management, and so on; I just hope it is done with real enthusiasm.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

[The prepared statement of Senator Harkin follows:]

PREPARED STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA

Thank you Mr. Chairman. I want to commend you for convening this hearing on ground water issues as they relate to our work on the new farm bill. Ground water quality and other issues concerning the impact of agriculture on environmental quality will demand a good deal of attention as this committee works to craft the farm bill.

Next to the basic commodity program issues relating to farm income, environmental and conservation issues will be the most significant matters in this debate. I want to emphasize the importance of adequate farm income in connection with these environmental issues, because I believe that a strong and stable family farm system of agriculture is our best hope for protecting our soil and water resources. And those farm families cannot stay in business without adequate income.

Every survey that I've seen shows that farmers are ready and willing to address these environmental concerns. After all, they drink ground water, apply pesticides and live where pesticides and fertilizers are used.

Last year I conducted a mail survey and got back over 6,000 responses from Iowa farmers on various farm policy topics. Of the respondents, 93.6 percent said they were very concerned or somewhat concerned that some modern farming practices may have harmful effects on human health, the environment and natural resources. Also, 89.3 percent said they would be willing to change some of their farming practices to help protect and conserve ground and surface waters, soils and other natural resources.

Moreover, the accumulating evidence of pesticide and fertilizer residues in ground and surface water is generating a growing demand among the general public to address the environmental impacts of agriculture.

Though farmers have a genuine interest in solving these problems, they also have to remain productive and efficient to stay in business. We need an increased emphasis on research and extension involving practical and feasible farming methods that address environmental problems while allowing farmers to maintain productivity and profitability.

Many environmentally sound practices, such as integrated pest management, careful fertilizer management, and crop rotation and diversification, help to enhance farm productivity and profits by increasing efficiency in the use of purchased inputs.

We need changes in farm policy that will help farmers find solutions to environmental and conservation problems suited to their individual farms. Farm programs should facilitate and encourage these solutions, not stand in the way.

Probably the most important step we can take is to provide greater planting flexibility in the program so that farmers do not lose base acreage for rotations involving nonprogram crops. Greater flexibility will allow farmers to take advantage of the agronomic, economic and environmental benefits of crop rotation and diversification.

I also favor policies that will provide some additional incentives to farmers who are willing to adopt practices that have demonstrated value in mitigating the environmental impacts of agriculture.

I want to avoid additional regulation of farmers. By and large, farmers will respond if they have the knowledge they need to implement practical and economically feasible solutions.

But we also must be realistic about public opinion and the political climate. If we in agriculture do not demonstrate significant progress toward solving these environmental problems, it is virtually inevitable that we will see regulation imposed outside agriculture.

It will be very unfortunate if the debate on these issues is cast as a contest between agriculture on one side and the public, consumers and environmentalists on the other side. Agriculture too often comes out the loser when the debate is framed in that way.

Let's not underestimate the willingness of our farmers to meet these environmental challenges or their ability to develop and implement practices and technologies that will enhance stewardship while maintaining productivity, efficiency and profitablity.

We can find a common ground in these issues, and I look forward to taking part in that effort.

The CHAIRMAN. Senator Bond.

STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Senator BOND. Mr. Chairman, I am delighted to be able to welcome our good friends, Secretary Yeutter, and Administrator or possibly soon, Secretary Reilly, to this hearing.

We agree with you that water quality is extremely important, and we are delighted to see the commitment of the administration to the very crucial issue of ground water.

As I have visited and listened to people in my home State of Missouri, many questions remain. People don't know where to turn. They want to know if the drinking water is safe; what is the extent of ground water contamination; how do we deal with it.

It seems to me that we are just beginning to understand this issue, and as I have talked with extension professionals from Missouri and other States, they have told me that they are most concerned that we just don't have adequate information.

We are most anxious to support you and your recommendations and develop our own in determining what can we do to find out the extent, the nature, and the solutions to ground water contamination.

I was pleased that the USDA recognized the importance of research and education and included significant additional outlays in the 1990 budget. We would like to know what the results of this work suggest; we would like to know whether additional outlays are needed.

I also commend the EPA for a very innovative project in the bootheel of Missouri. The project addresses concerns about fields which are treated with an average rate of chemicals and fertilizer

may have resulted in some inaccurate rates and excessive application.

Under this program, detailed base maps of agricultural land will be used to identify problem areas and then come up with appropriate agronomic rates of fertilizers and chemicals. I think this is an important step in the right direction.

We still have a lot of ignorance about the problems of ground water contamination. I hope we are on a fast track to cure that ignorance gap and learn what we need to learn.

One particular question that has come up in my discussions with farmers in Missouri and when I visited the Agricultural Research Service in Beltsville, Maryland, has been the potential impact of conservation tillage and the required use of herbicides.

In Missouri, under conservation compliance, producers are required to use over 5 million acres of conservation tillage or no-till land. I am concerned about how the necessary applications of herbicides might impact the ground water.

These are just a few of the very difficult questions. We appreciate your being with us today, and we look forward to hearing your discussion of them.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Last, Senator Helms. Did you have a statement, Senator?

Senator HELMS. Mr. Chairman, I have no statement, having spent 2 weeks on the Fourteenth Street Bridge this morning, and I am anxious to hear the panelists.

The CHAIRMAN. Jesse, before you came in, I was commenting on the fact—and I should have included you in the list of people who arrive here early in the morning—I went home last night to northern Virginia in 14 minutes. It took me 2 hours coming in this morning.

We will enter into the hearing record, without objection, the statement of Senator Cochran.

[The prepared statement of Senator Cochran follows:]

PREPARED STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Mr. Chairman, I join you in welcoming our distinguished guests, Secretary Yeutter and Administrator Reilly. I look forward to hearing their comments on such an important issue as ground water quality as we prepare to write the 1990 farm bill.

The protection of our ground water resources is one of the most important issues facing American agriculture today. I hope that it will be the commitment of this committee to ensure a safe and abundant ground water supply, while maintaining a strong and viable agricultural sector. American farmers work hard to maintain the fertility and environmental soundness of their land. Because farm communities must also depend on local ground water supplies, farmers have little desire or incentive to practice unsafe farming techniques that would harm the very elements that they are so dependent upon. Also, with farmers facing extremely high production costs there is no incentive for producers to use any nonessential inputs (fertilizer, chemicals, et cetera).

It is my opinion, that through improved farmer education, research, public awareness, and improved management practices, we can prevent many potential water quality problems from arising. At a time when the environmental education needs of our Nation's conventional agricultural producers are increasing, American farmers need the leadership and support of the Department of Agriculture and the Environmental Protection Agency.

The CHAIRMAN. Secretary Yeutter.

STATEMENT OF CLAYTON YEUTTER, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC, ACCOMPANIED BY DR. HARRY MUSSMAN, DEPUTY ASSISTANT SECRETARY FOR SCIENCE AND EDUCATION

Secretary YEUTTER. Thank you.

Mr. Chairman, for all of those of you who have tales of woe this morning, my press secretary, Kelly Shipp, had a flat tire on the way in, had to change her own tire and then go back home and change clothes. So the stories get better and better.

Mr. Chairman, it is a pleasure to be here and discuss this subject this morning. I appreciate the thoughtful comments by members of the committee on both sides of the political aisle, and Senator Conrad, I appreciate your silence——

[Laughter.]

The CHAIRMAN. So it is unanimous.

Senator CONRAD. I am so glad.

Secretary YEUTTER. Sometimes there are rewards for taking a low profile, Senator Conrad.

This certainly is an appropriate subject for public policy debate because it is an important topic to all of us.

SENATOR KERREY'S COMMENTS BROUGHT A TOUCH OF NOSTALGIA

Senator Kerrey, your comments brought a touch of nostalgia to me because of having worked on these issues so many years back. As you were talking, I thought back, and it was 25 years ago that I did my doctoral dissertation in this area, and one of the points I made back then was that water problems, including ground water problems, were going to become one of the major public policy issues of this country, and that States and other units of government ought to be getting their institutional structures in place so that they will be prepared to handle them when they arise instead of waiting until crises occur and then respond to crises.

We actually did that in Nebraska, as your comments indicated, through the establishment of the Natural Resource Districts, and they really have served the State well and put Nebraska out ahead of the game in terms of responding to some of these kinds of issues. So we hope we'll see an emulation of some of that elsewhere in the country even though it is now 25 years later, and a good many States have done nothing thus far to prepare for these kinds of issues.

I also made the point way back then, Mr. Chairman, that water does not run down county lines and that we have to put in place institutional structures that relate to where the water is rather than where the political boundaries lie. That was done with the Natural Resource Districts in Nebraska, and that too has been a big success in the intervening years.

WASHINGTON POST EDITORIAL YESTERDAY

I also noted with interest, Mr. Chairman, a Washington Post editorial yesterday, an excellent editorial, which pointed out that farmers are the first people affected by water quality problems because 90 percent of farm families use ground water as their source

of drinking water, and assuredly, they have a greater stake than anyone else.

That, too, brought back a touch of nostalgia because I grew up on a Nebraska farm at a time when we hand-dug our cisterns, and I suppose that I have consumed more contaminated water than anyone in this room, not with any great desire to have done so, and if we can do better in the future for incoming generations of agricultural people, I hope we take advantage of that opportunity.

DRAW THE COMMITTEE'S ATTENTION TO A RECENT ARTICLE IN FARM JOURNAL ENTITLED "FARMERS STEP FORWARD ON ATRAZINE"

Then finally, in the way of preliminary comments, I wanted to draw the committee's attention to a recent article in Farm Journal entitled "Farmers Step Forward on Atrazine". It came out of Iowa, in fact, Senator Harkin, and it points out that Iowa farm leaders, after having seen the evidence of ground water pollution by atrazine, have given their blessing to regulation and statewide restrictions on the use of atrazine in that State—a good indication of a point that has been made by a number of you this morning, that farmers are environmentalists, they are committed to having safe water supplies for themselves and for everyone else, and they are willing listeners on this subject.

THE SUBSTANTIVE QUESTIONS BEFORE US

Finally, with that all having been said, let's turn to the substantive questions before us, and I will do this very briefly.

I thought Senator Daschle posed the questions quite well by articulating his three priorities—one, do we have enough research in this area; two, do we have an educational process that is adequate to serve those who need to know; and three, is there adequate coordination of this effort.

My quick answers to those questions, Senator Daschle, would be that first, we do not have enough research; second, we have an adequate educational process if we use it right; third, we may not have had adequate coordination in the past, but I do believe we have adequate coordination at the moment.

I'd like to now embellish on all of that and go into a couple of additional points.

ISSUE OF COORDINATION

First on the issue of coordination, that arises with two dimensions—one, how well do we coordinate within the Department of Agriculture on our specific responsibilities, and second, how well do we coordinate with Bill Reilly and his team at EPA and with other agencies of the government.

My judgment, Senator Daschle and other members of the committee, is that we have that issue structured quite well at the moment. Within the Department of Agriculture, we now have a Policy Coordinating Council which applies not only to an issue like water, but to all other what we call crosscutting issues within the Department. That group is headed by Deputy Secretary Parnell, and under that group we have individual teams dealing with these crosscutting issues, typically with the lead responsibility given to a

particular sub-Cabinet officer. In the case of water quality, that lead has gone to Assistant Secretary for Science and Education, Dr. Charles Hess, but with specific working-level responsibility, if we may call it that, to Dr. Harry Mussman who is accompanying me here this morning. As most of you know, Dr. Mussman is one of our most outstanding administrators in USDA and a very distinguished scientist in his own right. He has been heading up the water quality effort for the last few months and doing an excellent job.

On an interagency basis, there are a lot of folks that are involved in this process, including the Committee on Earth Sciences and a number of other groups. We just had a meeting, I am told, yesterday with the U.S. Geological Survey, coordinating USDA/USGS efforts. EPA has been heavily involved in our internal preparations on the farm bill, getting into these kinds of issues on the farm bill deliberations, and there are a number of other efforts in this area as well.

So I feel pretty good, Senator Daschle, about the coordination that exists presently—although Administrator Reilly may want to comment further on that in just a minute.

WITH RESPECT TO THE SUBJECT ITSELF

With respect to the subject itself, there is no question that we need a sound, responsible approach to usage levels for chemicals and fertilizers in this country. Farmers themselves attempt to achieve that every day of the year. I am always a little bit disturbed with some folks who conclude that farmers are determined to apply lots of fertilizer and lots of chemicals to their soil. Farmers don't want to apply any more fertilizer than they absolutely have to, and they don't want to apply any more chemicals than they absolutely have to—they cost money. So if it is economically feasible for a farmer to cut back, he will do so, and if it can be demonstrated that there is a health risk involved—the point Senator Harkin was making—they will cut back there, too, as the Iowa farmers now have done on atrazine.

What we must do, though—and this goes back to Senator Daschle's earlier question about research—we must have adequate information for farmers to make sensible decisions in this area, and the fact is today we simply do not have adequate information in a good number of these areas. It varies product by product, State by State, in some cases, research entity by research entity, and even when we have a substantial amount of research existing, in many cases the research isn't accompanied by adequate field trials. You can't convince the farmer on the basis of a test plot that is a few feet wide and 100 feet long or something that that is adequate to persuade him that he ought to drop his ammonium nitrate usage by 30 percent or drop his usage of a particular herbicide by 25 or 30 percent. You have really got to be able to demonstrate in field trials that look like his own operations that this can be done in a feasible way. And if we can do that and demonstrate that existing volumes of usage are too high, farmers will certainly reduce that usage.

That means we need to work on this issue—what minimum levels are truly necessary for protection; how can farmers best use these chemicals in order to avoid leaching into the ground water supplies below; how do they handle health threats when they do exist—there are a number of questions; the list could go on and on, but there is no time to cover them this morning.

A COMMENT ON WHAT SENATOR BOSCHWITZ SAID ABOUT FARM LEGISLATION

I want to make a comment on what Senator Boschwitz said about farm legislation because that is a very relevant subject here. We have to be very careful that we do not all sound like committed environmentalists this morning, and then come back for the farm bill hearings on February 7, a couple of weeks from now, and begin deliberations on policies that will go in exactly the opposite direction, which is something that we have traditionally done through the years.

ONE SPECIFIC EXAMPLE OUTSIDE OF THE UNITED STATES

I will cite one specific example outside of the United States right now, where the European Community is going in precisely opposite directions simultaneously. The Community has sky-high support levels for agricultural products, as everyone here knows; that's one of our problems on the international trade front. I looked at some numbers the other day indicating the support level on soybeans in the Community now is something over $18 a bushel. That is obviously going to stimulate people to use fertilizer, chemicals and everything else on soybeans. You can almost grow soybeans on top of the Alps peaks at that price. And at the same time, there are some countries within the Community who are now paying farmers to reduce the intensity of their agricultural production.

I don't see anything that will be more encouraging to get them to intensify than $18 beans, so it is necessary then to turn around and pay them in other ways to get them to extensify to avoid the environmental problems of $18 beans. Well, that's indicative of how nonsensible policymaking can sometimes become in this area and how we really do need to get our policy priorities properly oriented.

We could cite some American examples and examples in other countries as well as those of the European Community, of course, but the EC example is a very vivid one.

WITH RESPECT TO WHAT IS HAPPENING TODAY IN THE UNITED STATES

With respect to what is happening today in the United States, Senator Harkin, thank you for your comments about the commitment that is evident in my prepared testimony, and I believe that is a fair statement. The Department has tripled its budget in this area in the last 3 years. I cannot today talk about the fiscal year 1991 budget because it will be surfaced at the White House next week, but I can say that there will be a healthy increase in this area in the fiscal year 1991 budget; there are not many increases, I can assure you, at a time when Gramm-Rudman calls for extensive reductions in that budget. So that should be good news in the context of the discussions here this morning.

We are spending about $155 million now on water quality problems, which is a substantial amount indeed. A lot of that amount, by the way, to give you a quick breakdown—it is about $63.5 million in the research area, about $46 million in technology transfer; about $33 million in financial assistance to farmers; there is about $10 million coming out of AFIS on things like integrated pest management and a couple million in data collection. So that is a substantial commitment indeed.

Today—and this is mentioned in my testimony—I just announced the approval of about $17 million worth of demonstration projects, technology transfer projects, as we call them, in 37 States, and I believe a listing of the States has been passed out here this morning; you can all get additional information on that at a later time if you wish.

We have other demonstration projects going, regional projects and a whole host of others. I will not expand on those this morning.

SUMMARY

Just to summarize very quickly, a lot is being done in this area by USDA and others. If there be shortcomings, the shortcomings are of timing. As is often the case in a democratic society, we are too slow to respond, and much of this effort should have begun perhaps 10 or 15 or 20 years ago—it did not. So we are playing catch-up—but better to play catch-up than to permit the issue to fester.

There is still much to do, Mr. Chairman, and I hope we can get it done in the coming years. By and large in my judgment, we don't need a regulatory response here to any great degree, because I don't believe farmers need to be regulated in this area. They need to be informed, encouraged, in some cases stimulated, to make changes, but I don't really believe that a regulatory, mandatory response is in order in very many cases.

More appropriately, we need to get our farm policy act together to make sure that we are not doing things in that area that clearly undercut what all of us are hoping to do in the discussion that is relevant here today.

We need a lot of generation of knowledge and the transfer of knowledge to people, and if we can do that, I think we can make substantial progress.

Mr. Chairman, thank you.

The CHAIRMAN. Thank you very much.

[The prepared statement of Secretary Yeutter follows:]

PREPARED STATEMENT OF CLAYTON YEUTTER, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Good morning Chairman Leahy and members of the committee. I appreciate your invitation to join with the Administrator of the Environmental Protection Agency, William K. Reilly, to discuss issues related to ground water contamination by agricultural chemicals. I am accompanied today by the Deputy Assistant Secretary for Science and Education, Harry Mussman, who heads the Department of Agriculture's Working Group on Water Quality.

Water quality is an important concern for all Americans and it is a concern that the President and I share. Just a few days ago, in remarks before the American Farm Bureau Federation, President Bush said, "We must recognize that productive agriculture and a sound environment can be compatible—especially in terms of water quality."

As the President has said, we should have agricultural policies which respond to environmental concerns, especially with regard to the use of pesticides and fertilizers. I agree fully with the President that we must keep good land in business, without unreasonable burdens, but we must also keep it good land.

It is appropriate, Mr. Chairman, that we fully discuss the topic of ground water contamination here today as the Department does plan to address this issue in our recommendations for the 1990 farm bill.

American farmers share the Nation's concerns for the quality of our water and our environment. The air, the soil, and water are their most basic tools. No segment of our society has a more direct interest in protecting the environment than the farmer. We at USDA, and the farmers we represent are all concerned when we learn of contamination of our water resources. This hearing will place special emphasis on ground water, but the Department has numerous program activities in both ground and surface water. The interrelationships require that we work to protect both water sources effectively.

Ground water, especially in rural areas where more than 90 percent of farm families and communities depend on it as their primary source of drinking water, is critically important. Although agricultural chemicals are not yet a serious health problem in ground water, we recognize that present findings are indicative of the potential for more pervasive ground water contamination problems in the future. We support the President's policy that serious ground water contamination is to be prevented, and the Department's energies are being focused on that aspect of the issue.

USDA supports EPA in conducting the National Pesticides in Well Water Survey which will provide the information to characterize the extent of the problem on a national perspective. We believe this survey will confirm that this challenge can best be addressed through a combined effort of Federal agencies, State governments, and the private sector.

There have been times when cooperation between and among agencies dealing with environmental issues has been lacking. There have been times when there has also been a perceived lack of coordination within USDA. But let's put those concerns behind us here and now.

On November 1 we established a policy-level Working Group on Water Quality which is chaired by Dr. Mussman. The membership of this committee consists of all USDA assistant secretaries and agency administrators who have roles to play in this subject matter area. The primary purpose of this group is to coordinate all departmental water quality issues and activities, including research, information, education, technical assistance, financial assistance, and regulatory aspects.

The Working Group's oversight responsibilities include reviewing USDA water quality policies and programs to assure their effectiveness, appropriateness, and adequacy. It will also provide continuing advice and guidance to me and my staff on existing and emerging issues related to water quality—with an emphasis on those which may have potential impact on agriculture.

In addition to our in-house coordination, there is a new spirit of cooperation among Federal agencies. A number of interagency committees, including the Committee on Earth Sciences, are now focusing on environmental issues, including ground water. To promote interagency cooperation, our working group has met with EPA, the National Oceanic and Atmospheric Administration (NOAA), and the U.S. Geological Survey (USGS), and we will continue to do so on a regular basis. But cooperation is more than just meetings or committees. It is the free and open exchange of ideas, plans, and people taking action to make things happen.

For instance, just a few doors down the hall from my own office is the office of Jim Meek, an employee of EPA, who is on detail to USDA to assist in guiding our water quality program. Lee Bridgman of our staff is at EPA providing an agricultural viewpoint on numerous issues. And, Jim Mosely, an Indiana farmer, serves Bill Reilly well as his agricultural consultant.

Just yesterday, several members of our Working Group spent the afternoon with USGS officials in Reston, Virginia, discussing water quality activities and particularly the coordination of mutually supportive programs in the Midwest. USDA and USGS are jointly chairing a water quality technical integration committee. The Land-Grant University system and the Department are also working closely together to develop and implement research, education, and technical assistance programs.

In preparing for enactment of a new farm bill, we asked Administrator Reilly and his staff for their suggestions and guidance on environmental issues. EPA staff members have since been cooperating with us in our internal farm bill preparations. We also sought—and received—the full cooperation of the Department of the

Interior. Our farm bill proposals will help protect the environment without imposing stringent new regulations that could impair the ability of farmers to make a profit.

Mr. Chairman, we know that America's farmers need to take a sound and responsible approach to the use of agricultural chemicals. Almost all farmers do precisely that today. If and when our national agricultural policies foster farming practices that unnecessarily pose risks to human health and the environment, we will work to change them—not only to reduce those risks but to improve the quality of water, land, and other renewable natural resources for future generations. I'm sure the administration, this committee and the Congress as a whole will be fully cooperative in that endeavor. We have already implemented educational and technical assistance programs designed to help farmers understand and take advantage of farming practices that are more environmentally friendly—practices such as Integrated Pest Management (IPM), biocontrol usage, sustainable agricultural systems, and best management practices.

We are taking this approach because we are convinced that more laws, regulations, and penalties are not the best way to prevent the misuse of agricultural chemicals. Farmers are not deliberately damaging the environment, and never have done so. They are sometimes innocent victims of environmental degradation, but they are not the culprits!

We note that the recommendations received from The National Commission on Agriculture and Rural Development Policy, a group established by the Congress in the Food Security Act of 1985, states, "Federal agricultural policy should place greater emphasis on the development and voluntary adoption of production practices and pest management systems that reduce the potential for adverse consequences to the environment and public health." As you, Mr. Chairman, have written, most farmers, ranchers, and other rural Americans are well aware of, and worried about, the environmental hazards they face, and they are willing to do their share to reduce those hazards.

What they do need is sophisticated, research-based help.

—They need knowledge about minimum levels of chemicals that can be used while still protecting their crops and livestock.
—They need to know more about how to use chemicals in ways that minimize any adverse effects on the environment.
—They need greater opportunities within farm programs to diversify their production systems and thus reduce carryover levels of chemicals in the soil.
—They need economical methods to recover the energy and nutrients available in livestock wastes.
—They need to know how to keep chemicals and other pollutants from seeping directly into their wells, and they need reliable information about cost-effective ways to ensure that the water they drink does not cause serious risks to their health.

In recent years, the Department of Agriculture has undertaken several new initiatives to better address agricultural chemical and related water quality concerns. In last year's budget, we requested and the Congress approved substantial additional funding for these initiatives. As a result, the budget for water quality activities has more than doubled in the past 3 fiscal years, to more than $155 million in fiscal year 1990.

The USDA effort is a significant part of a governmentwide initiative presented in the President's 1990 budget. In addition to USDA, programs were identified in the budgets of NOAA, USGS, and EPA to strengthen our water quality programs in those agencies.

The major objective of the USDA water quality initiative is to provide farmers, ranchers, and other land managers with the information necessary to voluntarily adopt improved, environmentally sound management practices which do not sacrifice profitability. With the increase approved by Congress for 1990, planning and initial implementation is well underway within USDA and by its partners at the land-grant institutions in concert with other Federal agencies.

This is being closely coordinated with initiatives of USGS research and water quality assessment programs and we expect to conduct research at sites jointly selected with USGS. We are also coordinating these programs with EPA, since much of our work will be targeted to nonpoint source pollution identified in plans developed by States under requirements of Section 319 of the Water Quality Control Act of 1987. Agriculture has been identified as a nonpoint source pollution contributor in many States.

A major research thrust in 1990 will begin to develop a more complete understanding of the problems and will form the basis for development of improved man-

agement practices in the Midwest. As research proceeds, education and technical assistance will represent an increasing share of the total initiative, and I will share with you in a few moments an announcement in this regard.

For our research program, we are emphasizing improved management practices in those areas where concentrated corn and soybean production involves widespread use of nitrogen and pesticides in connection with conservation tillage practices. Other major research objectives are to:

—Continue work to determine the extent of agricultural contributions to nonpoint source pollution.
—Develop improved farm and ranch management practices.
—Improve the understanding of how agricultural chemicals move in soils and water.
—Develop less costly ground water sampling techniques.

We also must continue to develop statistically reliable information on pesticide use and farm practices which will be required in the development of agricultural chemical management strategies. Economic analysis will be an ongoing feature of the initiative to assess the impacts of alternative systems and approaches on producers, consumers, and rural activities.

Ultimate success of the initiative will be judged by the adoption of environmentally sensitive management practices by farmers and ranchers. Therefore an important aspect of our program covers the transfer of technology from the laboratory to the field. Education and technical assistance programs will be conducted jointly by the Cooperative Extension Service (CES) and the Soil Conservation Service (SCS). Funds are included in the initiative to improve the ability of these agencies to adapt research finds to meet specific local conditions. I am today announcing that $17 million will be provided by USDA this year to assist States in improving water quality in identified watershed areas in 37 States. These areas were selected on the basis of recommendations from USDA, EPA, NOAA, and USGS. I have asked that the committee be supplied with a complete listing of these projects.

In addition, we're planning other cooperative efforts, including the selection and funding of eight additional projects to demonstrate farmers' willingness to adopt newly developed conservation measures that more effectively manage agricultural uses of nutrients and pesticides. Other assistance will be targeted to regional programs that address multi-State water quality problems, such as the Great Lakes, Puget Sound, the Gulf of Mexico, the Chesapeake Bay, and the Tennessee River. As estuaries of national significance are identified and designated by EPA, they too will receive additional USDA assistance.

We will also develop new pesticide and nutrient use data bases with input from other Federal and State agencies. These data bases will be linked with others to assess the impacts of water quality management activities at the national and State levels. On all of these projects, we'll be working closely with EPA, USGS, and with State and local agencies to solve priority problems.

The USDA water quality improvements will be implemented cooperatively by the Agricultural Stabilization and Conservation Service (ASCS), CES, and SCS.

Finally, the National Agricultural Library (NAL) has established a Water Quality Information Center to provide improved information and reference services to researchers, educators, and others interested in water quality.

Mr. Chairman, there can be no doubt that it will require a lot of money, and a lot of people to accomplish our water quality goals. We must have trained personnel involved in our research, education, and technical assistance programs. We recognize the need to have people in the field who can work directly with farmers, ranchers, and land managers. To that end, we now plan to train up to 25,000 Federal, State, and local Extension agents, conservation district staff members, and others over the next 3 years. This year alone, we are already involved in the process of training the first 6,500 Federal and State specialists. In addition, over the next 3 years we must expand the number of USDA water quality technical specialists by approximately 100.

As we look at the 1990 farm bill, the objective of fostering improved agricultural chemical management suggests the need for legislative provisions which will allow farmers to be more flexible and diverse in their production and management systems. This should significantly impact areas where potential pollution of ground water is a critical concern. We will soon propose measures to accomplish these ends.

Mr. Chairman I am pleased to provide this report on our water quality efforts. While I am not in a position to announce the 1991 budget, I can tell you that this important area will continue to receive a high priority. In addition, I look forward to working with the committee on programs which may require legislative solutions, particularly in the context of the new farm bill. In summary, we recognize and will-

ingly accept agriculture's responsibility to help protect America's environment. But that protection must be part of a balanced approach which maintains the productivity and competitiveness of our farms and assures an adequate supply of food and fiber for our consumers here, and our customers abroad. Thank you and the members of this committee for the opportunity to appear here today, and I welcome your questions.

[USDA attachment follows:]

1990 USDA WATERSHED PROJECTS

[Approved January 25, 1990]

Alabama	Sand Mountain/Lake Guntersville
Arizona	Casa Grande/Coolidge
Arkansas	Moore's Creek
California	Westside San Joaquin Valley
Connecticut	Housatonic River
Delaware	Inland Bays
Florida	Middle Suwannee River
Illinois	Illinois River Sands
Iowa	Union Grove and Black Hawk
Indiana	Upper Tippecanoe
Louisiana	Bayou Queue De Tortue
Maine	Long/Cross Lakes
Massachusetts	Buzzards Bay
Michigan	Sycamore Creek
Minnesota	St. Peter/Prairie Du Chien
Mississippi	Tangipahoa River
Montana	Godfrey Creek
Nebraska	Elm Creek
New Hampshire	Great Bay
New Mexico	Dona Ana/Sierra
New York	East Sidney Lake
North Carolina	Goshen Swamp
North Dakota	Bowman/Haley
Ohio	Indian Lake
Oklahoma	Battle Branch
Oregon	Ontario
Puerto Rico	Lake Loiza
Rhode Island	Pawcatuck
South Carolina	Camping Creek
South Dakota	Richmond Lake
Tennessee	N. Fork Creek and Fall Creek
Texas	Upper North Bosque
Utah	Little Bear River
Vermont	Lower Missisquoi
West Virginia	Greenbriar River
Wisconsin	Plover/Whiting Wellhead Area
Wyoming	Ocean Lake

The CHAIRMAN. Administrator Reilly, why don't we go to your statement, if there is no objection, first, and then open it up to a round of questions. I think some of the members will have virtually the same questions of the two of you.

STATEMENT OF WILLIAM K. REILLY, ADMINISTRATOR, U.S. ENVIRONMENTAL PROTECTION AGENCY, WASHINGTON, DC, ACCOMPANIED BY LaJUANA S. WILCHER, ASSISTANT ADMINISTRATOR FOR WATER, AND LINDA FISHER, ASSISTANT ADMINISTRATOR FOR PESTICIDES AND TOXIC SUBSTANCES

INTRODUCTIONS

Administrator REILLY. Thank you very much, Mr. Chairman.

Let me first introduce LaJuana Wilcher, to my immediate left, who is the Assistant Administrator for Water at EPA; and on her left, Linda Fisher, the Assistant Administrator for Pesticides and Toxic Substances.

The CHAIRMAN. Ms. Wilcher and Ms. Fisher, we are glad to have you here.

LINKING AGRICULTURE AND ENVIRONMENTAL GOALS

Administrator REILLY. This is my first appearance before this committee, Mr. Chairman, and I recall listening to the statements that you and your colleagues have made this morning. I also recall a remark that Clayton Yeutter made to me last year when we joined the administration. He said the single largest change that he noticed as he returned to the Department was the very strong emphasis now and concern across the spectrum of agricultural interests, as well as others, with linking our agriculture and our environmental goals, with making sure that we don't frustrate the one with the other.

And I must say as a conservationist, I am really struck here, and I suspect Senator Baucus was as well, by the fact that many of the things said here this morning could as well have been said, and very often are said, with the same kind of conviction and emphasis in the Senate Environment and Public Works Committee.

GROUND WATER AS A RESOURCE

I have been involved in ground water issues in previous work at The Conservation Foundation and now extensively over the past year as Administrator of EPA. I essentially have considered and tried to approach ground water as a resource of tremendous, really critical value to our economic well-being, to the Nation's ecology, to our aquatic systems, to protection of surface water and to recreation—there is so much flow back and forth between surface and ground waters in our streams and lakes—and obviously to agriculture.

Ground water is an unseen resource, and I think perhaps because of that, efforts to address and manage it more effectively have often been fitful and episodic and driven by crises.

The thing that strikes me, looking back over my first involvement in ground water, is how much more is occurring now to deal with ground water problems than was true a few years ago, 5 years ago or even 3 years ago. I think there have been great strides made since EPA put together its ground water strategy in 1984, great strides in developing strategies and statutes of various sorts, wellhead protection programs, pesticide applicator education, and other such programs; the identification of aquifer areas and the restric-

tion of certain activities on critical aquifer areas that may be vulnerable to chemical contamination.

EPA ACTIVITIES TO PROTECT AND CLEAN UP GROUND WATER

Well, in my brief remarks here—and I'll ask that my statement be inserted for the record—I want to address first agricultural chemicals under the pesticide law, under FIFRA. We are evaluating new and already registered pesticides for their impact on ground water contamination, and we will propose this year a restricted use rule for pesticides that will entail characterizing pesticides according to their contribution to ground water or their potential, their likelihood, to contribute to ground water problems.

We have underway a national pesticide survey that is intended to determine the frequency and the level of pesticide and nitrate concentrations, both of them, in drinking water wells and also to explore more closely the association of these problems with agricultural activities.

We have compiled already an extensive pesticide data base, and in that data base, we have a collection of reports going back over 10 years ago, reports by pesticide registrants, by universities, by government agencies, and others. I think this data base makes very clear that contamination of ground water is widespread in the United States, and we have seen well closings in virtually all of the States associated with ground water contamination. However, that said, a small proportion of aquifers are contaminated at this time, and an even smaller proportion are seriously polluted.

GROUND WATER PROPOSALS

We have underway extensive ground water protection and cleanup activities under the variety of statutes that EPA administers—under the underground storage tank control program, under the Resource Conservation and Recovery Act, under Superfund, under the Clean Water Act, and under the Safe Drinking Water Act.

I am reminded that it was the 1984 release of the ground water strategy that raised a number of questions in the minds of some about whether the Agency or the Federal Government was going to effect an incursion into States' rights, and the strategy became somewhat controversial. In response to that controversy, Governor Babbitt organized with The Conservation Foundation what became the National Ground Water Policy Forum.

What occurs to me today is that the concern with efforts to better manage this resource—concern on the part of people who reflected those States' rights anxieties back in 1984—is much lower today. And I think today you are much more likely to get a reaction that emphasizes the functional appropriateness, the rational allocation of responsibilities among the levels of government, rather than a concern that perhaps, given all of the statutes we already administer that impact on ground water, that are designed to protect ground water, that we are moving too far or too fast.

TWO PROPOSALS

I want to recognize briefly two proposals deserving, I think, specific recognition on this issue. One is that Ground Water Policy

Forum that I just mentioned. The second is a 1988 report by a coalition of environmental organizations. There are several similarities, broadly speaking, in these two reports. Both of them call for a national goal for ground water protection, and both of them place great emphasis on the need for a better partnership between the Federal Government and the States in addressing ground water and also involving the private sector.

The significant difference in those two reports is with respect to the role of the Federal Government affecting the States. The Environmental Coalition's proposal would establish a far stronger Federal role, that is, a much more ambitious Federal program including ground water standards than would the National Policy Forum.

EPA GROUND WATER TASK FORCE AND STATEMENT OF PRINCIPLES

We established a ground water task force under the direction of Deputy Administrator F. Henry Habicht last summer, and that task force has adopted a statement of principles as a first step. Overall, the goal that we set in the task force is to prevent adverse effects on human health and the environment and to protect the environmental integrity, of our ground water resources.

THREE PREVENTION PRINCIPLES

There are three prevention principles that are key to this.

The first is to protect ground water to ensure that the Nation's currently used and reasonably expected drinking water supplies do not present adverse health risks and are preserved for present and future generations.

The second prevention principle is to protect ground water that is closely linked hydrologically, as much of it is, to surface water so that it doesn't interfere with all of the efforts that we are making to try to protect surface water quality.

Third, ground water should be protected through a variety of means including: pollution prevention, to eliminate or at least minimize the amount of pollution that affects ground water, is really key to that, and there are source controls and siting controls, designation of wellhead protection areas, and protection of aquifer recharge areas, and a role, really, for all levels of government in accomplishing this.

With respect to remediation or cleanup of already-polluted ground water, we set a goal of essentially minimizing human exposure to contamination risks first, and then work to restore currently used and reasonably expected sources of drinking water and the ground water that also supports critical aquatic habitats.

Finally, to assure that both prevention and remediation activities are accomplished, an effective ground water protection program must link Federal, State, and local activities into a coherent and coordinated plan of action.

A STRATEGY FOR ADDRESSING PESTICIDES IN GROUND WATER

Well, EPA is now completing a strategy for addressing pesticides in ground water that I mentioned earlier. This strategy emphasizes pollution prevention. It also emphasizes the key role of States in the management of pesticide use. There are a variety of reasons for

that that have to do with the special characteristics of ground water. Ground water has enormous variation chemically and hydrologically across the country. There are also great differences in use characteristics in the various States, in crops, for example. And finally, in the nature of the kinds of things that it is necessary to do in many places to adequately protect ground water, such as requiring controls on surface use, on land use, controls that EPA and the Federal Government neither have the authority to impose nor want.

We are working—I want to emphasize—very closely——

The CHAIRMAN. But many of those States are doing nothing, as Secretary Yeutter pointed out.

Administrator REILLY. Many are doing nothing. Many, however, are doing much more than they have. And I think those that are doing the most may provide good models for the others that we have some authorities, I think, to encourage to move faster.

CONCLUSION

Let me say in conclusion we are working very closely with the Agriculture Department and with Secretary Yeutter on any number of aspects of environmental quality—on the President's Water Quality Initiative, on the Farm Bill, on food safety. A couple of weeks ago—I guess it was more than that now, but it seems like a couple of weeks ago—in early December, Secretary Yeutter and I were together at the European Community, and I was able to see the way the debate unfolds with our European partners and some of the difficulties that he has and that we have in trying to get more consistency in our policies, and they are seeing this time many of the same adverse effects on the environment from their own support programs as we have seen, I think, in some of ours.

Finally, I want to conclude by saying that a few years ago I said that ground water was the principal remaining environmental resource that is largely unaddressed as a matter of national policy. That may still be true. I think it is significantly less true now than it was then, and I'm not prepared to say at this time whether we need to go beyond current authorities to provide that policy. But I do want to emphasize that we have an extensive network of national programs that address ground water concerns, and there is a strong effort in EPA to link those programs more effectively. I think we have not done such an effective job given the history of the statutes we administer, the different committees to which we respond, the different concerns reflected in those statutes, to bring those programs together. But a huge proportion of EPA's resources are essentially directed toward protecting the integrity of ground water in our various programs.

It remains for us to complete that effort, to do a better job of linkage and connection, and then I think whether these linkages and authorities are sufficient—and we'll have a better sense of that later in the year—we need to recognize very frankly that cleanup, as crucially important as it is to ground water protection, and the priority for which is enormous in our budget—the Superfund and the various waste management programs, RCRA and the others—as important as cleanup is, we have perhaps dedicated a dispropor-

tionate amount of our resources to cleanup to the possible disadvantage of prevention. And in the future, I think we've got to gear our programs and policies across-the-board to try and do a much better job of minimizing waste and of preventing pollution before it occurs.

We have certainly learned in the Superfund program how enormously complex and expensive, if it's even technologically possible, it is to clean up contaminated ground water once it becomes contaminated.

Thank you, Mr. Chairman.

[The prepared statement of Administrator Reilly follows:]

STATEMENT OF
WILLIAM K. REILLY
ADMINISTRATOR
U.S. ENVIRONMENTAL PROTECTION AGENCY
BEFORE THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

January 25, 1990

Mr. Chairman and members of the Committee, I am William K. Reilly, Administrator of the U.S. Environmental Protection Agency (EPA). With me today are LaJuana S. Wilcher, Assistant Administrator for Water, and Linda Fisher, Assistant Administrator for Pesticides and Toxic Substances.

I am very pleased to be given this opportunity to discuss with you one of our most important environmental concerns -- protection of our nation's ground-water resources. Among the many new initiatives started during my first year as EPA Administrator, I established a Ground-Water Task Force chaired by Deputy Administrator F. Henry Habicht. The Task Force's first accomplishment is a statement of principles clarifying the Agency's approach to ground water. As I will discuss later in greater detail, we believe the goals of EPA's emerging ground-water policy should be to prevent adverse effects to human health and the environment and to protect the environmental integrity of the nation's ground-water resources. Pursuing these goals will help sustain the resource and any critical ecosystems it supports, not merely for the near term, but for the future as well. Let me point out that ground-water policy development at EPA has, so far, been internal to the Agency and we are just now at the point of initiating a broader review by the States and other Federal

agencies. Since we haven't sent our document yet to other agencies for interagency review, our policy shouldn't be construed as Administration-wide policy.

Ground-water protection is one of our more complex issues, cutting across economic sectors, all levels of government, and most of our Federal environmental statutes. Some basic facts about ground water highlight its importance. About one-fourth of all the fresh water used in this country comes from underground. It has been estimated that ground water may currently supply drinking water to as much as 50% of the population, 35% of the supply in urban areas and 95% of the supply in rural areas. Also, one-third of the water used for irrigation in this country is drawn from underground. For example, the agricultural States of Arkansas, Colorado, Kansas, and Nebraska use over 90% of their ground-water withdrawals for agricultural activities. In addition, because ground water and surface water are often interconnected, ground water may also have longterm ecological significance in certain geological settings. Therefore, activities that protect ground water will also help to protect surface water in the longterm.

Protecting ground water is a complex endeavor. First, the concentrations of contaminants released to ground water often have very limited opportunity to be reduced through dilution or mixing with waters. Indeed, the adsorption of contaminants or transformation to different contaminants underground is difficult to assess accurately. Second, ground water is difficult to

monitor. Taking a ground-water sample may require drilling a well and the information obtained from that sampling point may be significantly different from that collected a short distance away. Third, ground-water contamination is caused by discharges from a wide variety and number of sources, including improperly managed underground storage tanks and hazardous waste landfills, agricultural practices, septic tanks, and many others. From experience, we know that cleaning up ground water once contaminated is in most cases very expensive, or may be impractical.

Ground-water protection is an issue with which I have been deeply involved over the last several years; first, as President of The Conservation Foundation and member of the National Ground-Water Policy Forum, and now, as Administrator of EPA.

Since the development of EPA's Ground-Water Protection Strategy in 1984, I have watched the Agency and the States move forward. Indeed, since 1984, the Agency has made significant strides in protecting the resource, both in implementing ground-water related statutory authorities and in new EPA initiatives in this area. In addition, because of the localized nature of ground-water problems and solutions, we recognize that the States need to have the lead responsibility on this issue. The States have been rapidly moving ahead in developing their own ground-water protection strategies and wellhead protection programs.

EPA ACTIVITIES TO PROTECT AND CLEAN UP GROUND WATER

One of EPA's most important activities with respect to protecting ground water is the Agency's growing emphasis on pollution prevention. This effort is moving the country away from

a focus on "end-of-the-pipe" treatment and control of pollution after it becomes a problem, toward reducing the use and generation of hazardous substances and other waste materials initially. This emphasis is designed to change the way the Agency does business, through incorporation of a multi-media prevention-oriented approach in our regulations and policies, and to engage industry, local and State governments, grass roots organizations, academia, and the public at large. In fiscal year 1991 and 1992, EPA plans to devote significant resources to fund pilot projects to demonstrate the feasibility of pollution prevention techniques, including ground-water related projects. One project's objective is to help farmers significantly reduce the use of herbicides to manage weeds in major corn-producing States. This is to be accomplished by providing reliable information to farmers on methods to reduce herbicide inputs while enhancing farm profits. In addition, EPA and the States are moving forward to implement the Clean Water Act's Nonpoint Source Management Programs, with a grant program to States to address surface and ground-water nonpoint source problems. These efforts have the potential to reduce significantly the amount of pollution that our society generates, which could ease the threat of ground-water contamination.

In addition to our pollution prevention efforts, we have continued to use our authorities under a number of statutes to address ground-water contamination.

Some of our most significant achievements and current efforts have been in addressing the concern for agricultural chemical impacts on ground water under the Federal Insecticide, Fungicide,

and Rodenticide Act (FIFRA). Much of our awakening to the potential scope of ground-water contamination problems came from alarm over pesticide contamination concerns in the late 1970s and early 1980s from DBCP, EDB, and aldicarb. Prior to the detection of these pesticides in the ground waters of various States, many believed that ground-water contamination was only a concern where there were high concentrations of chemicals such as those found at hazardous waste sites. Today, however we know that numerous day-to-day activities, including pesticide applications, can result in low-level contamination of ground-water resources. We believe that in some areas pesticide contamination of ground water is a real problem, although it is not a serious problem everywhere.

EPA has underway a number of activities to address pesticides in ground water. For example, EPA evaluates new and previously-registered pesticides for ground-water contamination potential. For previously-registered pesticides, EPA continues to review environmental fate data submitted on 140 pesticides through a special Data Call-In.

Based on these and other data the Agency will decide whether to use nationally applicable restrictions to regulate pesticides posing widespread, national concerns. For instance, if data show that a pesticide is sufficiently mobile and persistent to threaten ground water, EPA may restrict the use of that pesticide to certified applicators - applicators who have been specifically trained in the safe use of these pesticides. EPA may impose a regional or national cancellation on the use of the pesticide. This year we will propose a "Restricted Use Rule" to identify

pesticide products which would be considered for a restricted use classification due to the pesticide's potential to contaminate ground water. This rule would add physical characteristics and ground-water detection criteria to the Agency's existing criteria for classifying pesticides. This rule embodies our pollution prevention approach by restricting use on a national level based on laboratory data.

The Agency is also taking a number of actions to obtain better nationwide pesticide contamination data. First, EPA's National Pesticide Survey will determine both the frequency and level of pesticide and nitrate concentrations in domestic and community drinking water wells, and it will investigate how pesticide and nitrate concentrations in wells are associated with agricultural activities and ground-water vulnerability near those wells. EPA is currently monitoring 127 substances in approximately 560 community water system wells and 750 private household drinking water wells. We hope to have a preliminary report of the monitoring results in the fall of 1990 and a draft final report a few months later.

Second, EPA's Pesticides in Ground-Water Data Base holds a collection of monitoring reports carried out over the past 10 years by pesticide registrants, universities, and government agencies. EPA released an interim report last year which contained results for contaminants, most of which were below health advisory levels, from 150 monitoring studies -- 46 pesticides were found in the ground water of 26 States from normal agricultural use; and 32

pesticides were found in 12 States from point-source contamination. This data base is available to the States, other Federal agencies, and the public.

Third, the Agency's efforts to prevent and remedy ground-water contamination from agricultural chemicals is supported by our research program, which focuses on understanding the transport and transformation of agricultural chemicals.

In addition, EPA administers extensive ground-water protection and clean up activities under other statutes.

Under the Toxic Substances Control Act (TSCA), EPA has reviewed approximately 15,000 submissions for new chemicals since 1979 to identify potential risks before these substances enter the market place and has imposed appropriate restrictions. In addition, EPA has screened approximately 4,000 existing chemicals over the past ten years. During these reviews EPA has considered a variety of factors including the potential for ground-water contamination.

Under the Resource Conservation and Recovery Act (RCRA), EPA regulates the management of hazardous waste in a manner protective of human health and the environment. A centerpiece of the RCRA program is the ground-water protection regulations that require all hazardous waste treatment and disposal units to regularly monitor ground water and to immediately clean up any releases of contaminants that may be detected from those units.

The Underground Storage Tank Program (UST) has authorized EPA to establish: new tank performance standards; requirements for release detection, reporting, and investigation; corrective

actions; tank closures; and financial responsibility rules. This program has placed a major emphasis on building dynamic, effective State programs, including ground-water contamination clean up programs.

Through the Superfund program, EPA placed 974 hazardous waste sites on the NPL with a proposed addition of 220 sites. EPA has begun work at 81 percent of these NPL sites, including making clean-up decisions at 267 Superfund sites, and deleting 28 sites that no longer present a risk.

Since 1985, with approximately $35 million provided under the Clean Water Act (CWA) for FY 1985-1989, 50 States and the U.S. Territories have prepared ground-water strategies.

Furthermore, under the Safe Drinking Water Act (SDWA), thirty States have developed and submitted State Wellhead Protection programs for EPA approval with significant technical assistance from EPA. EPA will soon establish regulations covering 83 drinking water contaminants, with another 25 under development as required by statute, and has issued in proposed or final form 144 drinking water health advisories. EPA has also established regulations to protect underground sources of drinking water from contamination by injection wells and is now developing regulations for additional categories of injection wells.

GROUND-WATER PROPOSALS

Notwithstanding this broad range of activities since issuance of EPA's Ground-Water Protection Strategy, the ground-water policy debate has broadened into a very useful discussion among a wide variety of interests.

Although neither effort is necessarily endorsed by the Administration, I would like to inform the Committee of two proposals for national ground-water policies which do deserve specific recognition: the 1987 Report of the National Groundwater Policy Forum, and the 1988 report produced by a coalition of environmental organizations entitled, "Protecting the Nation's Groundwater: A Proposal for Federal Legislation."

While differing in some respects, the proposals found in these reports both stress the following major principles:

- o A national goal is necessary. These proposals would explicitly give priority to ground-water protection by all sectors of society.
- o A partnership must be developed between all levels of government and the private sector. These proposals describe roles for each level of government and would assign responsibilities for private business, environmental groups, and citizens.
- o A greater national emphasis is needed to prevent ground-water contamination. Both proposals clearly state that significant increases in prevention efforts are needed because the nation is allocating too many resources to clean up contaminated ground-water.
- o Ground water must be protected through many different activities by all sectors. Both proposals call for pollution prevention actions and research; source controls; ground-water standards; and mapping, monitoring, and data collection efforts.

- o State actions are very important to the success of the nation's ground-water protection efforts. Both proposals would require the States to implement and enforce many of the protection actions just mentioned. Further, these proposals would strengthen the Federal role including the authority to impose sanctions on States.
- o The characteristics and vulnerability of ground water must be considered when protecting and cleaning up ground water. Both proposals have aspects that allow for Federal and State protection and clean up policies and management decisions to consider the nature and use of ground water.

Significant differences do exist between the Forum's and the environmental coalition's proposals, especially concerning the role of the Federal government with regard to the States. The environmental coalition's proposal would establish, for example, a far stronger Federal role in source controls and ground-water standards.

EPA GROUND-WATER TASK FORCE AND STATEMENT OF PRINCIPLES

This renewed and valuable debate has highlighted to me both the need to face issues that went unaddressed in the EPA 1984 Ground-Water Protection Strategy and the need to consider potential changes in our current approach, as well as new initiatives and activities. As I stated earlier, I have established an EPA Ground-Water Task Force chaired by Deputy Administrator F. Henry Habicht and comprised of assistant administrators, office directors, and

regional officials. The Task Force has been meeting regularly to define and develop recommendations on a number of ground-water issues. As one of its first accomplishments, the Task Force developed:

- o a statement of principles which I will soon discuss; and
- o an options paper covering the issues involved in further defining the State/Federal relationship in comprehensively protecting ground water.

Furthermore, the Task Force plans to submit to me recommendations and options papers covering such other areas as:

- o examining our priority ground-water research and data collection needs and preparing strategies for how EPA, in conjunction with other Federal agencies and the States, can make data more widely available in a useful, coordinated way; and
- o suggesting specific methods of ensuring ongoing coordination of ground-water activities both within EPA and among other involved Federal agencies.

I very much welcome the views of Members of Congress and the numerous government and private sector organizations and individuals as we continue to formulate EPA's ground-water policy. I must reiterate that our preliminary product does not yet reflect interagency review or reflect Administration-wide policy. A key element of our outreach effort will be making the statement of EPA's ground-water principles and the State/Federal relationship options paper available to these organizations and individuals.

The Task Force has developed an excellent statement of EPA's principles for protection of the resource and I am pleased to point out that this statement of principles is similar to the broad principles which form the underlying basis of the National Ground-Water Policy Forum's and the environmental coalition's proposals.

As I stated earlier, the overall goal of EPA is to prevent adverse effects to human health and the environment and to protect the environmental integrity of the nation's ground-water resources. This goal is essential to achieve the sustainability of the resource and any critical ecosystem it supports, not just for the near term, but for the future as well. In addition, because ground-water cleanup is extremely difficult and costly, and in some cases impossible to achieve, EPA's objective is to emphasize prevention of pollution whenever possible. We recognize that, in determining an appropriate prevention and protection strategy, we must also take into account the use, value, and vulnerability of the resource, as well as social and economic considerations.

To achieve this objective, EPA believes it's three proposed principles should form the basis for the Agency's ground-water prevention actions. The premise underlying these principles is that ground water is a unique resource due to both its pervasiveness and the ease with which small sources of contaminations can sometimes affect it, and also the impact that use and hydrogeologic characteristics (e.g. vulnerability) can have on its quality. Sources of ground-water contamination vary in different localities and regions across the country based on differences in economic activities: agricultural activities in the nation's farm belt, as

compared to the industrial mid-west and to the oil and gas industries in the oil producing states. As such, an effective ground-water strategy will require an appropriate blend of several protection methods, which are designed to prevent pollution so as to eliminate unacceptable risks to human health and the environment.

o First, ground water should be protected to ensure that the nation's currently used and reasonably expected drinking water supplies, both public and private, do not present adverse health risks and are preserved for present and future generations.

o Second, ground water should also be protected to ensure that ground water that is closely linked hydrologically to surface water does not interfere with the attainment of surface water quality standards, and that valuable ecosystems are preserved for future generations.

o Third, ground-water protection should be achieved through a variety of means including: pollution prevention programs aimed at eliminating and minimizing the amount of pollution that could potentially affect ground water, source controls, siting controls, the designation of wellhead protection areas, and protection of aquifer recharge areas.

With respect to remediation, and in keeping with the Agency's goal of prevention and given the costs and technical limitations associated with ground-water cleanup, a framework should be established that ensures that the environmental and public health

benefit of each dollar spent is maximized. Thus, in making remediation decisions, we must take a realistic approach to restoration based upon actual and reasonably expected uses.

In an ideal world of unlimited funds, prioritization would be unnecessary. However, because resources do not permit all contamination to be addressed at once, the need for prioritization must be recognized. Therefore, our primary objective must be to minimize exposures to unacceptable contaminate levels and risks. Moreover, given the expense and technical difficulties associated with ground-water remediation, we are emphasizing early detection and monitoring so that we can determine at an early stage any appropriate steps to control and remediate threats to human health and the environment.

Consequently, we propose that ground-water remediation activities must be prioritized to minimize human exposure to contamination risks first, and then to restore currently used and reasonably expected sources of drinking water and ground water that support critical aquatic habitats, whenever such restorations are practicable and attainable.

Finally, to assure that both prevention and remediation activities are accomplished, an effective ground-water protection program must link Federal, State, and local activities into a coherent and coordinated plan of action. The premise for this principle is that ground water, in any given area, may be subject to contamination from a wide variety of point and non-point sources. Thus, coherence and coordination in any plan of action are vitally important. EPA must ensure that the ground-water

protection programs it implements in cooperation with the States under CWA, RCRA, SDWA, CERCLA, and FIFRA, and the research programs that it funds under these Acts, are directed toward achieving the goal and objectives outlined above. In addition, the authority of each State to allocate water within its jurisdiction must be respected.

Further, given the uniquely local nature of ground-water pollution and use, the States and localities must, with regard to prevention activities, have the primary responsibility for prioritizing risks to the resource and for implementing programs in their States to protect the resource. However, as in Superfund where specific Federal responsibilities are provided for under the law, the requirements of the law must prevail.

In the design and timing of regulatory initiatives, EPA will also attempt to address the highest risks. Further, not only must Federal, State, and local activities be linked to form a coherent plan of action -- air, water, and land practices, to the extent practicable, must also be examined in an integrated fashion to ensure protection of the ground-water resource.

I believe that recent State activities as well as a new report by the Urban Institute demonstrate that States have a clear commitment to develop and implement comprehensive ground-water protection programs and currently have the ability to assume primary responsibility for ground-water protection actions. Thirty-seven States have passed specific ground-water protection legislation between 1985 and 1987, and many States have adopted further legislative initiatives in the past two years. These

legislative actions have occurred in tandem with the remarkable State progress in the development of ground-water protection programs and wellhead protection programs.

The new report by the Urban Institute illuminates the nature and content of current State strategies and programs. The report was based on examination of forty State strategies developed between 1986 and 1988, and case studies of eight States. The report found that many programs are highly innovative and offer good models. And the report found that there were no insurmountable problems blocking effective development and implementation of State strategies. The deficiencies that were described were attributed primarily to the newness, and complexity, of the strategies and to the resource allocation decisions that States are making.

Let me now turn to some of the new initiatives currently underway in conjunction with our Task Force activities.

EPA INITIATIVES FOR PESTICIDES IN GROUND WATER

The Agency is currently completing a strategy for addressing pesticides in ground water which will adopt the Task Force Principles as its goal. The strategy will call for the specific use of EPA pesticide registration and reregistration authorities under FIFRA to prevent ground-water contamination that poses an unreasonable risk to human health or the environment. The final strategy will, in practice, encourage the pursuit of pollution prevention, where practical, in the farm sector to prevent the introduction of pesticides into ground waters.

While the proposed strategy calls for a continuing strong EPA role in addressing pesticides in ground water, including the wide array of activities I discussed earlier, the proposed strategy also recognizes and emphasizes a key role for the States in the management of pesticide use. This State role is essential because contamination by pesticides depends upon the site-specific nature of ground-water vulnerability, pesticide use, and farming practices.

Under our strategy, States would develop pesticide management plans to strengthen EPA's foundation for pesticide registration decisions. Where a management plan is to maintain the registration of a pesticide, the registered use of that pesticide within a State will depend on the presence and adequacy of such a plan. Under a State management plan, a State will have the opportunity to develop and implement highly-tailored prevention measures based on local conditions and needs.

An example of this approach is the Agency's proposed decision action, which is not yet final, on the use of aldicarb, the first pesticide that EPA has proposed to regulate in accordance with the proposed strategy addressing pesticides in ground water. Under the proposal, the pesticide could continue to be used only if States develop and implement pesticide management plans which address contamination in areas of high ground-water vulnerability. In addition, the Agency has proposed national restrictions on the use of aldicarb, including that application not be closer than a 300-

foot minimum distance from drinking water wells, classification of the pesticide for restricted use by trained applicators, and monitoring requirements.

I would also like to note that EPA is concerned about the growing problem nitrate contamination of ground water from fertilizer applications and from animal wastes at feedlots. It is often difficult to differentiate agricultural production sources from other nitrate sources, such as natural sources or the septic systems common to rural areas. It is also perhaps more difficult to fashion solutions to this problem than for pesticides since it is impossible to find an alternate product which would have a lower potential to leach into ground water. The options available to farmers are generally limited to reducing use or changing basic farming practices to reduce the likelihood of contamination.

EPA believes that the States will have a pivotal role in working with the farm community in finding solutions to nitrate contamination problems. Working with USDA and DOI, EPA will pursue ways to support the States and the farm community in finding such solutions. Indeed, EPA has already provided some limited assistance to the States, and will be increasing such efforts now that the Nonpoint Source Program (Section 319 of the Water Quality Act) has received its first appropriations in fiscal 1990.

EPA also recognizes that to effectively and efficiently address the concerns for agricultural production and ground-water protection, the Agency must closely coordinate with USDA and other Federal agencies. EPA has established an Agricultural Policy Committee consisting of assistant administrators and office

directors across the Agency. This provides not only a forum within EPA to discuss agricultural policies, but also serves as a focal point for USDA and DOI to discuss coordination and other policy issues. Representatives from our Agricultural Policy Committee have been meeting with USDA to discuss arrangements for coordination at several working and policy levels. All of our agencies are committed to avoiding unnecessary duplication and finding synergism in our efforts to serve the agricultural community and protect the rural environment.

Two key areas of coordination currently being reviewed include the President's Water Quality Initiative and legislative deliberations on farm policy.

The President's Fiscal 1990 budget for the Water Quality Initiative allocates increased existing funding sources for coordinated Federal water quality programs in USDA, EPA, the Department of Interior, and the Department of Commerce. EPA's efforts, which will complement those of USDA and the other Federal agencies, are directed to building State capacity to address pesticide contamination of ground water and other water quality initiatives.

FARM BILL

The other key area of coordination has been EPA's participation in USDA's Farm Bill Conservation Initiatives Workgroup. We greatly appreciate that Secretary Yeutter and USDA have actively sought EPA's input into analysis of Farm Bill options which could enhance the environmental benefits of new Federal farm policy. This level of cooperation between EPA and USDA on the

reauthorization of the Farm Bill is invaluable as a means of assessing and deciding upon an Administration farm policy which supports the full range of policy objectives.

I believe there are several areas where environmental quality goals could be advanced in various aspects of the Farm Bill. We understand, and are sensitive to, the many objectives which the Farm Bill must achieve, and that environmental protection is only one of these. However, we cannot ignore that the States report that over 50 percent of those surface waters which still do not meet water quality standards in the U.S. probably fail to do so due to agricultural activities. And, as I discussed earlier, there is concern for potentially significant contamination of our ground-water resources by agricultural chemicals. As such, EPA's overriding goal must be to establish and achieve consistent agricultural and environmental objectives.

There is widespread agreement that the 1990 Farm Bill should provide farmers with greater flexibility and remove disincentives for adopting environmentally compatible cropping practices. Furthermore, research to identify and develop these practices may be needed if farmers are to move in this direction.

Another area of Federal farm policy that might merit reexamination is the Conservation Reserve Program (CRP). USDA has done a good job implementing the Conservation Reserve Program resulting in major reductions in soil loss and the largest tree planting program in U.S. history. We believe that the Conservation Reserve Program may have the potential to yield even greater water quality and wildlife habitat gains.

Large environmental gains are possible for example, through targeting acreage for the Conservation Reserve Program to environmentally sensitive lands. This could be achieved by linking enrollment in CRP with vulnerable places identified in State Ground Water Protection Strategies, State Wellhead Protection Programs, and State Nonpoint Source Water Quality Assessments -- all of which are supported by EPA. There could also be linkage between CRP and endangered species habitat protection or wetlands not covered by the current Swampbuster provisions.

The time to act is now on a nationally coordinated effort to increase the protection of the vital national resource of ground water. In doing so, I strongly believe that agricultural policy goals and environmental policy goals can both be achieved. In particular, the signals coming from Washington, embodied in the farm programs, should not constitute barriers to the adoption of alternative systems of production. I look forward to working closely with the Congress, Secretary Yeutter, other Federal agencies, and the States to attain a broad consensus on EPA's components of a national effort.

Mr. Chairman, I want to thank you again for inviting me to testify on these important issues of environmental policy. I would be pleased to continue working with the Committee. This concludes my testimony and I will be please to respond to questions from you and the Members of the Committee.

The CHAIRMAN. Thank you very much.

Secretary Yeutter, let me start off with you. I went back and looked at the confirmation hearings from a year ago when you were before the committee, and we had discussed the need for leadership on this whole issue of ground water protection. You had said in that hearing that you would provide it. We have yet to receive any proposals on legislation, so I will not comment on possible legislation. But in this whole area, there is another kind of leadership, and that is political leadership. Let me discuss that because it is a matter of some concern to me.

As I go around the country and I talk with farm groups and environmental groups and others, I find an increased awareness of environmental dangers, an increased willingness of people to come together and try to find some common ground. So I get concerned when I see speeches of yours, in which you have encouraged farmers, and I quote, "Battle them"—the environmentalists—"with vigor." To me that seems to be planting the seeds of discord.

You don't divide and conquer on this issue. I think all Americans have a concern for the environment. Farmers after all have their children growing up, drinking this water; they are looking at the next generation; they are concerned about it.

We will get nowhere, whether on the farm bill or anything else, in protecting people of this country if we pit agriculture against the environment. If we have a war between environmentalists and those who produce the food and fiber of this country, then neither will benefit.

As I said, I get very, very concerned. Let me mention some of this in regard to other speeches. In fact, the most recent one, the one that got my attention, I went back and looked at some of your other speeches—in the speech to the American Farm Bureau Federation in Florida, you said, "Let's hope that America's newspaper and magazine readers, television readers and radio listeners have had enough scare tactics and what some have begun to call 'environmental terrorism'."

That is not holding any kind of an olive branch. What I want to know is will you, with the prestige of your office, and will your Department, take steps not to divide and conquer, but to bring environmentalists and the producers of our food and fiber together.

Secretary YEUTTER. Providing it is responded to in kind by the folks to place themselves in the category of environmental advocates, Mr. Chairman. It takes two to tango, and I expect sensible, reasonable, rational proposals to emanate from the so-called environmental community if there is to be an olive branch from me or anyone else.

The CHAIRMAN. Well, how do you define the "so-called environmental community"? Who do you put in that category?

Secretary YEUTTER. I can certainly put into that category the folks who have taken positions on some of these issues which I would construe to be irresponsible.

The CHAIRMAN. Like who?

Secretary YEUTTER. Like the folks who attacked alar without scientific basis for doing so and caused great damage to the apple producers of this country and, in my judgment, very thoroughly

misled the American public and the American consumer in that area. That is one example, and I could cite some others.

The CHAIRMAN. Do you have a list of responsible and irresponsible environmental leaders?

Secretary YEUTTER. I can certainly tell the difference, I believe, and I hope you can, too, Mr. Chairman.

The CHAIRMAN. I am interested so we'll know where we are going and also so some reflection this committee can have when we hear statements.

Do you have such a list of those you would consider responsible and those you would consider irresponsible?

Secretary YEUTTER. I don't maintain lists, and I don't believe that a judgment should be made on a given organization in anticipation that attitudes that exist today will always exist in the future. I hope that we all learn from experience and that we all try to do the responsible thing in this area.

But Mr. Chairman, the Secretary of Agriculture cannot be intimidated by folks who take positions that simply do not make good sense from the standpoint of American farmers. I have seen statements by a particular group that indicate that that group—which I will not now identify—would like to eliminate the use of all agricultural pesticides by 1995. I do not believe it is responsible to suggest that we eliminate all agricultural pesticides by 1995. We cannot operate on that basis.

If folks like that are willing to work with us on a sensible basis and try to find practical, reasonable solutions to these very sensitive and delicate issues, they will receive an olive branch from me. But if they take positions that I believe are just totally contrary to the interests of American agriculture, then I believe that the farmers of this country expect me to represent their interests and to seek sound outcomes to these kinds of disputes.

The CHAIRMAN. Well, when you find 800 million pounds of pesticides being used each year in this country—that is the example I used, or 3¼ pounds for each man, woman and child in the country—do you question at all the legitimacy of concern, especially of people in rural America, as to what this might be doing to the ground water? They have a legitimate concern, do they not?

Secretary YEUTTER. Of course. And if that can be lowered to 600 million or 400 million or 200 million, I'd be delighted and farmers would be delighted. But we cannot do it without a base, a sound basis for making that decision. I can't go to the farmers of Iowa and say you folks ought to reduce your share of that 800 million by 25 percent next year. Their answer to me is going to be: "You are going to force me into bankruptcy, Mr. Secretary."

The CHAIRMAN. Can you be saying to them we are working very, very hard, developing techniques and whatnot, to help you reduce pesticide use, both because it will cost you less, and secondly because it may be safer?

Secretary YEUTTER. Absolutely. And we are doing that.

The CHAIRMAN. And can you also be saying to them, "And we will work with environmentalists, and we will work with consumers, and we will work with you, and we will work with everybody else to try to reach that kind of consensus"?

Secretary YEUTTER. Absolutely. But we have to make sure that everyone who is working in this area, Mr. Chairman, does so with a balanced approach. I have seen a good many comments in this arena that have not demonstrated balance. I find too many comments, Mr. Chairman, that reflect no consideration of the economics of this question, and I am fully in accord with the view that health factors outweigh economic factors in all of these decision-making processes.

But neither can we totally ignore economic factors, because in this case we have farmers who are trying to earn a living. And I have seen too many statements from folks who say that economic issues ought to be eliminated from the policy discussions totally, totally. I believe that to be irresponsible.

The CHAIRMAN. Administrator Reilly—and we'll come back to this, Secretary Yeutter; I suspect we'll be discussing it more than once before the year is over—Administrator Reilly, the EPA quite rightly is often viewed as the environmental conscience of the Federal Government, as the agency we look to and ask what is the direction on environment, at least in the view of the Federal Government.

I don't think there is an environmental issue in any part of the Federal Government that EPA doesn't touch on, and I suspect that's why President Bush is supporting a move to make EPA a Cabinet position.

That is why we wanted you here, and you and I have discussed EPA's views before—we did last year, just before Christmastime. In 1980, EPA formed a task force to study the problem of ground water contamination, and then 4 years later in 1984, EPA released a ground water strategy that urged action to address contamination from agricultural chemicals. In 1986, 2 years later, EPA proposed a pesticide strategy, which is still not finalized. And now in 1990, 10 years from that first step, the USDA's Economic Research Service estimates about 50 million people, or as many as 50 million people, use ground water in areas potentially contaminated by agricultural chemicals.

I am concerned I might not be around here long enough to see the task forces stop and the comprehensive ground water program start. I talk about all these task forces—that was before your time with the EPA. You are now there at EPA. Are we going to stop the task forces and start having a comprehensive ground water program?

Administrator REILLY. Well, sir, let me say that we have, since the late spring, quite heavily accelerated our activities on ground water across-the-board and on some other programs that have very important ramifications for ground water.

We took a very close look at the Superfund program, for example, and set out a report in early summer that redirected the program in a number of important ways that I think will have advantages for ground water, with an "enforcement first" thrust and an emphasis on new technology for cleanup. And that has given us record-high numbers of settlements, of fines collected, and of contributions by the private sector to cleanup of ground water over the past year—the best numbers we have ever seen.

We also worked very closely with Secretary Yeutter and the Agriculture Department in developing some long-needed, long-overdue food safety initiatives that address the pesticide problem, and particularly offer us an advantage that we did not have when the alar case occurred that the Secretary referred to to take action when we have reasonably reliable and conclusive information about the problems caused by a pesticide to health, to take action to bring the curtain down and get those pesticides removed from the market, and we are hoping to see action this year on that.

The effort to develop a comprehensive ground water policy, and particularly the last efforts you referred to in 1986, is going on; it has not been concluded, although we have, I think, made a number of important steps with it and with our task force. We have a statement of principles that I summarized in my remarks. We have a report on State/Federal relationships. We have conducted extensive reviews, workshops around the country—I think there were altogether about 12 of them. We have spent a good deal of time coordinating with agricultural commissioners, and with extension agents, and with the other departments, and I think we are going to have a much stronger policy as a result of that.

I confess we still are in midflight to some degree on this, and that is why I'm not prepared to say conclusively whether we do or do not need any new legislation on ground water at this time. And I think we are going to give you some things over the course of this year that really will advance the case.

The CHAIRMAN. We have the Clean Air Act, we have the Clean Water Act, we have the Superfund Act, the Hazardous Waste Act, and some are beginning to think that perhaps we should have a Ground Water Act, certainly those of us who live in rural America, as I do, and get our water from ground water. Every, single area I go—and this is not a partisan issue, it doesn't make any difference whether someone is a Republican or a Democrat—if they are using ground water, they are becoming more and more concerned.

I look in the Midwest, and there are some areas where the nitrate contamination is at two times the level of the drinking water standard. In southern California, I'm told that 4 percent of the drinking water supply is lost every year to nitrate contamination. That is an enormous amount of water, in an area where it is difficult to get adequate water, to lose your water supply to nitrate contamination.

Just using that as one example—what should we do—should we go to the EPA ground water program, or to the Department of Agriculture, to the farm bill? Can you give us any direction on that?

Administrator REILLY. Honestly, I think we have to do both of those things. We have to do a number of things. We are surveying nitrate and the extent of contamination of ground water by nitrates in the National Pesticide Survey.

The CHAIRMAN. Do you agree with me that it is a major issue?

Administrator REILLY. I agree with you that it is a problem. We do not have regulatory authority over fertilizer applications, as we do with respect to pesticide use. We do, however, set standards for drinking water, and have proposed a rule, proposed standards for nitrates already that will be very helpful on this.

I think that from a regulatory standpoint, anyone considering ground water legislative proposals needs to be aware of the fact that we already address I think, 29,000 hazardous waste sites that we are responsible for regulating, 16,000 landfills, municipal landfills—and we are going to issue regulations on landfills later this year. We have responsibility for pesticide use, extensive ones. The drinking water standards that we set affect protection of wellheads and what comes out of the tap. The Clean Water Act gives us extensive authorities to affect water.

You look at a number of sources of ground water contamination that we don't have authority over. We don't have authority over fertilizer application and use, as I mentioned. We don't have authority to regulate septic systems. While we have surface impoundments, we don't have local, open dump controls. We don't have any controls over the disposal of household hazardous chemicals.

Whether we want those kinds of controls I think has to await a sense that we are doing a more than adequate job both of administering the huge responsibilities that we have—and I think there has been, frankly, a tendency to layer on the responsibilities on EPA without commensurate resources to carry out those responsibilities—and then to judge whether we have effectively linked the various objectives and programs that we now have which, as I say, are very, very extensive.

The CHAIRMAN. I will——

Administrator REILLY. If I could just make one more point, ultimately, I take your question to suggest that our regulatory authorities may be insufficient; that we need changes in approaches to farming and agriculture, generally, and a reduction over time of the loadings that are imposed upon our ecological systems. With that, I wholeheartedly agree.

The CHAIRMAN. I have gone more than beyond my time, and I apologize to my colleagues. I will have followup questions, because obviously I see areas where the contamination is two or three times EPA's own health standards, and I have some followup questions in this area and will submit them for the record.[4]

I yield to Senator Lugar.

Senator LUGAR. Thank you very much, Mr. Chairman.

I would like unanimous consent to submit a statement by Senator Cochran for the record.

The CHAIRMAN. Absolutely. And I would note that if there are other Senators who have statements that they wish to submit for the record, we will keep the record open for at least a day for that purpose.

[The prepared statement of Senator Cochran can be found on p. 193.]

Senator LUGAR. Mr. Reilly, in your statement, you commended the 1987 report of the National Ground Water Policy Forum and a 1988 report entitled "Protecting the Nation's Ground Water: A Proposal for Federal Legislation".

As you have mentioned, you have not come nor has Secretary Yeutter with legislative proposals, but the latter report offered an

[4] See pp. 261–265 for Chairman Leahy's questions and responses.

outline that you have commended to our attention, and specifically, that national goals are necessary that government and private sector partnerships should be developed, and prevention is the key solution factor.

You also make two points that I want you to illuminate further. One is that all ground water cannot be protected—at least the report said this, and you have commended this aspect, as I gather—and thus protection efforts must be prioritized.

How is that to be done, or can you give some outline as to what the priorities would be? I think the comment as a whole that all ground water cannot be protected is demonstrably true. The problem has always been given limited resources, or even abundant resources, how would you begin and what are the priorities?

Administrator REILLY. I don't know that I would approach it quite that way. I think we ought to recognize that in addressing the ground water resource, our own financial resources and those of energy and people and time are limited, and we need to start, as some of the better State ground water management programs do, by looking at those ground water resources that are the most critical to us, that are the source, for example, of drinking water, or are likely to be used for drinking water in the future, those that are particularly vulnerable because of the characteristics of the hydrogeology in which they lie. These ground waters need to be addressed first.

It is not, however, a way of saying that we ought to neglect any substantial portion of ground water; I don't think that is true at all. But it is a way of saying that we ought to be careful not to make the best be the enemy of the good here and look to those resources which really are most critical to us, which are likely to be important in the future, and that we are capable of protecting right now; put resources into their protection so that we don't later discover we have a cleanup problem, we have a contamination problem, which will be enormously complex and expensive to deal with.

Senator LUGAR. So the priority is in fact drinking water, that is, drinking water supplies for people and their communities and the vulnerability of aquifers, at least as two major priorities?

Administrator REILLY. Those would certainly be very important priorities, and there are others as well. There are resources that are important to aquatic ecosystems; ground water plays a very important role in base flow for streams and lakes in the country. Obviously, that has enormous implications for surface water protection that we are concerned about and for recreation.

So with a number of those concerns and uses for irrigation and things of that sort, I think you can develop a hierarchy at least of first-order business in ground water programs that uses your resources most effectively.

Senator LUGAR. Granted, both you and Secretary Yeutter have listed a great number of things that are being done, that could be done, that would have general application for reducing the potential for ground water pollution. Are there specific strategies that communities could adopt if they have a water supply that is based upon ground water, or are there studies already that indicate geographical or geological facts of life that would make some aquifers

more vulnerable? What is the state of the art in terms of identifying ways, if these were basic priorities, that either the local governments, the State governments, or the Federal Government might act to give that intense support that you have mentioned?

Administrator REILLY. Well, I think it depends somewhat across the country how much information we may have about the ground water resource. It is not always easy to get detailed information given the variability in the circumstances of the ground water in various places.

But given also the importance of information and certain kinds of highly sophisticated information that I think the Federal Government can help provide, it seems to me that information and technical assistance, research, are key roles that we can play.

There is a good deal of help increasingly available from States for localities in identifying aquifers, in some cases in providing resources for testing wells, and for identifying the various kinds of controls, siting controls, controls in the location of certain sorts of facilities such as landfills and land use controls generally, which they need to consider very often if they are to do an adequate job of managing their ground water.

Senator LUGAR. Your answer indicates that, as you say, there are a number of these situations in which States have furnished this kind of information or made it available to cities. Of course, that implies there are a good number of States that have not done this.

Is one of the roles at least of the Federal Government and its proper agencies or even legislation to try to bring greater uniformity of this information? In other words, if a citizen were to have the misfortune of living in a State or a community which is unaware, first of all, of its dependence upon ground water for public use and the vulnerability of that supply, obviously, these people have some jeopardy of which they might not have been informed. And I suppose it is the lack of uniformity of knowledge or comprehensiveness here that is disturbing to many of us, including yourself.

Administrator REILLY. Well, I believe strongly that we need to focus on State capacity and in getting, if not uniformity of result, uniformity of effort, particularly in many of those States where that is not now taking place.

We have some incentives that are likely to give a good push to that occurring. I think our Pesticides in Ground Water Strategy that will essentially say with regard to certain pesticides you cannot use it—you cannot use it in your State if you don't have a ground water management program—I think that's going to go a long way toward bringing some who haven't acted to do so.

We also are providing resources—I think $7 million—for development of these management plans this year, and there are other resources being provided under the water quality initiative by the Agriculture Department to do this, too. So I think that kind of help, along with the technical guidance that we provide for monitoring water quality, an essential feature of these State plans, and our work with USGS to provide more consistent information from them and to use those resources, which ought not to be duplicated at the State or certainly the local level, can go a good distance here.

Senator LUGAR. Your comment on these incentives is, I think, a crucial point because clearly it ought to offer some reason for State governments to act. If they fail to act, as you point out, a whole raft of pesticides cannot be used within those States.

The predicament now falls, then, to farmers. Let us say that a farmer happens to reside in a State and is operating a farm, and that State government, for whatever reason, has not been too sharp and adept in leaping into this breach, as a matter of fact, simply disqualifies the whole State and therefore all farmers within it from use of certain chemicals in a legitimate way—what is to happen to this farmer? In other words, how are the equities balanced, or is there hope that farm groups will come to the legislature or to the Governor or the powers that be and demand that they do something so that normal agriculture can proceed?

Administrator REILLY. I think from our point of view, there is not much choice that we have if we are to exercise our authorities responsibly in, once we have determined that a chemical does create ground water problems, ensuring that States are aware of those problems and act to prevent them in sensitive and important ecosystems and aquifers.

I would expect—and I think we have seen some emphasis on this already—that we will get State responses as a result of those kinds of policies. I think the statements that a number of you have made about the concern for better management and protection of ground water across-the-board on the part of the farm community as everyone else, given particularly that 97 percent of drinking water in rural areas comes from the ground, is also working, and we shouldn't assume that it is just these incentives or penalties that lead to that result.

Secretary YEUTTER. Can I add a supplementary comment, Senator Lugar? I don't mean to interrupt, but based on my experience through the years, water is a fiercely protected State domain. This is one of the strong bastions of States' rights and has been for the 200-year history of the country. There are some exceptions to that, but by and large, States rather ferociously protect their rights to regulate in this area, whether it be surface water or ground water. And I suspect that will continue in the future. That is of some relevance, Mr. Chairman, to what the Federal Government might do in the way of a legislative response in this area, because States do often look askance at any Federal involvement in water issues, whatever those issues may be.

So I agree with what Mr. Reilly said that one of the keys to more effective regulatory action in this area is to stimulate the proper regulatory responses if they be necessary at the State level, rather than superimpose Federal regulatory action.

At times, it is necessary to superimpose at the Federal level, and there are water problems that go beyond State borders and that need either regional or Federal solutions in those cases, and that has been done in a variety of ways through the years. But we should all recognize that there are very strong and vigorous articulations of State interest in this area.

Senator LUGAR. Well, I recognize what you say is correct, Secretary Yeutter, and I really commend Administrator Reilly's points. I am just trying to think through, however, even as we commend

each other, that if you are a farmer within one of these States that is not too vigorous in this respect, you are in trouble.

For instance, if I were farming in a State in which the people say we assert our rights to handle this thing—it is a States' rights issue, and we have always been zealous in fighting for our water—but we just don't plan to adopt a plan commensurate with what EPA wants or whoever the powers that be, and EPA says, well, in that case, these pesticides cannot be used by the farmers within your State, but they say, well, it is the principle of the thing, and we are still in litigation, and it proceeds on. As a farmer, do I have a right in somebody's court, State court or Federal court, to sue the State government or someone so that I can proceed with my farming in an efficient way, or do I just simply sort of cease and desist for a while, while the problem of States' rights or the overall ground water thing is wrapped up?

I don't know the answer to that, and I'm not certain that you do, but I think prior to adopting Federal legislation or even regulations that wicket in the individual farmer, this needs to be considered.

Administrator REILLY. Well, I think it is important to keep in mind our roles here and what we are proposing. We have the job of characterizing these pollution problems, health problems, created by chemicals. We expend enormous amounts of research to do that effectively. When we discover that we have a chemical that creates a health problem or contaminates the ground water, we make that known, certainly, and take other actions under the law. But what we are discussing right now is not, in my view, an ambitious or excessive incursion into States' rights; all we are doing is, in fact, asking States to act to protect the health of their own people. It is not a lot to ask, and it seems to me that is a perfectly reasonable division of responsibilities, and if the problem is very extensive, as in many cases it is—aldicarb is one chemical for which we have proposed restricted use already—I think you will see the farm community and the legislators of a given State—and by the way, the State legislators have made the environment, I think, their number one priority as a domestic policy issue for the current year, as has the Governors' Association—I think you will see them respond to that.

Senator LUGAR. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Lugar.

We'll go to Senator Kerrey, Senator Daschle, and then Senator Boschwitz.

Senator KERREY. Let me open by declaring that I have a great deal of respect for both of your intellects and your commitment to the job and all that sort of thing, so that you won't be alarmed by what is going to follow.

Administrator REILLY. I think we're in for it. [Laughter.]

Senator KERREY. Well, I am concerned by the presentation of the testimony. Certainly I don't want to ban ag chemicals by 1995. In fact I think it would be a mistake to put cross-compliance requirements into the 1990 farm bill for some of the reasons that Senator Lugar was identifying. I'm sure Mr. Scaling could talk at length about some of the difficulties that we're having at SCS, working

out the conservation plans that farmers are having to implement. The basic issue is how to regulate.

Having said that, and being concerned for the profitability of farmers, I believe it is patronizing to begin by saying farmers are environmentalists; you are patronizing them with that statement. Their desire is to be profitable.

I am in the restaurant business. If you came to me and said restaurateurs are environmentalists, we'd laugh at you. We're trying to make money. We're trying to serve food to our customers and be profitable by providing that service in some efficient way.

First of all, I think you are underestimating the differences of opinion out there among farmers. I just had nine hearings on the farm bill. I had farmers come before me—good, red-blooded, American farmers who said: Go back and have EPA ban them all; do us a favor.

I think it would be a mistake to do that. But there are differences of opinion out there. Moreover, I think it is unreasonable—and I have been approached by lots of people who have said you have to get the consumers to be more rational—to expect consumers to weigh all the risk factors and reach their own conclusions based upon rational judgments. That doesn't work for a mother who is feeding her children. If she hears on television tonight that corn produces cancer, she is going to stop purchasing corn.

You can say, well, the consumer is stupid—but that's not the way to approach the consumer. If I depend upon that consumer for my livelihood, I don't begin by saying: You are stupid; now, will you buy my product?

I'm worried, in fact, because I see increasing scientific evidence substantiating these concerns, and because of this evidence I think farmers want to respond to the problem.

For example, we in Nebraska—and Secretary Yeutter, I know you are familiar with chemigation—we severely restricted the practice of chemigation. We could not have done it without the support and the proposal being made in this instance by farmers. But it was opposed by some farmers as well. They wanted no restrictions because it was going to cost them $400 to put a valve on their center pivot irrigator, and they didn't want to spend $400. Now we're not sure that even that was enough.

Please, trust that we understand that there are conflicts out there. Trust that we understand that we in part are going to have to lead in the resolution of those conflicts. If we ignore them, the concern that I have is that people are going to rise up and require zero residues or some other sort of regulatory response that will have a terrible negative impact upon the economic survival of farmers.

I have made the statement as well, by the way. Farmers are environmentalists—terrific. But what is the environmental problem, and what is the response? It seems to me that those are the most important questions for us to address. I know there are lots of conflicts between the USDA and EPA, and we haven't heard about those this morning, but we need to hear them and resolve them. Otherwise we will fail, it seems to me, to put together policies to allow us in fact to make reasonable judgments, balancing economic factors against environmental requirements.

Let me ask one question, after having said that. Given, Mr. Secretary, that you have identified five needs in your testimony do you intend to increase funding for the Ag Productivity Act, which, it seems to me is directed specifically toward those five research and education needs that you have identified?

Secretary YEUTTER. First of all, if I may make a comment on your preliminary remarks, Senator Kerrey, there is conflict out there. There is conflict in all segments of our society, and of course, that is where political leadership comes in. And as the chairman pointed out earlier, I think we all have an obligation to demonstrate political leadership here, and we also have an educational challenge. You commented that in essence consumers are always right, and that's true; that's a fundamental rule for doing business. But that is not an adequate analysis of the situation.

I think consumers are typically rational if they have all the facts. The fact is in many of these situations they haven't had the facts——

Senator KERREY. Let me interrupt you, if I may. We fundamentally disagree on that, and it is a high-risk strategy to assume that you've got 200 million consumers out there that are reviewing all the facts and making rational judgments. You have cited on previous occasions some food scares and some things that have happened. Don't underestimate the speed with which information moves in 1990. And consumers can make judgments that will be adverse to the farmers in the entire country as a consequence not of fact-based judgments, but of emotional judgments.

Secretary YEUTTER. Of course. But don't you think we ought to try to keep that from happening?

Senator KERREY. Absolutely.

Secretary YEUTTER. You are suggesting just let it go.

Senator KERREY. No, I'm not suggesting let it go. I'm suggesting recognizing that that is part of it. I quite agree with you, by the way, that our responsibility is to try to assess the facts and——

Secretary YEUTTER. And communicate them.

Senator KERREY. I am redundantly and rudely interrupting you here with this reinforcement, but I am very much concerned that we are not ahead of the curve, to use an overworked phrase, in trying to assess what in fact we need to do so that the consumers can make emotional but rational judgments.

Secretary YEUTTER. I agree with all that. But we need to make sure that we have rational public policymaking. Let me use an example outside the United States so that it takes us out of the ambience of this discussion. As you know, the European Community banned the import of beef from the U.S. because of hormones being used in livestock rations here in the United States. That was an emotional response. In our judgments, there is no scientific basis for that ban, and we believe it is inappropriate and was a violation of the General Agreement on Tariffs and Trade, and as a consequence, as you know, we retaliated against the Community for doing so.

There is an example of policymaking that was based upon consumer pressures that in my judgment were irrational consumer pressures. We were the loser in that process, and my message to the European Community, my European Community counterparts,

Senator Kerrey, has been that we all have to try to avoid going down that road because we end up with unsound public policies as a result, and there is an example.

So I hope we can avoid having unsound public policies in the United States based upon emotional reactions. I think consumers are going to have emotional reactions unless we can do an effective job in this area of doing the research that is necessary to make sound policy decisions and then communicating those results to farmers and also to the general public.

I think we have to work at it. We may not always succeed. Maybe we are behind the curve—I said in my own testimony we were behind the curve in this area—and we are playing catchup, and that is unfortunate. But it seems to me we have to do the best we can under the circumstances. I can't go back and recapture 10 years and start all this research over 10 years ago. I wasn't here 10 years ago; neither were you. We have to start from where we were when we came.

The only other thing I would add to that—and it goes somewhat beyond your question—goes to the chairman's comment about working with environmental groups. We are going to be presenting to this committee in about 2 weeks our own views on the 1990 farm bill, and there will be a very substantial environmental component in what we suggest, probably a greater environmental component than has ever been suggested by any administration thus far. So we are not oblivious to those concerns.

Finally with respect to the question of farmers being environmentalists, maybe not all farmers are environmentalists, but some are. I am. I was an environmentalist as a farmer long before most of the groups who are making points on this issue. I was one of the first farmers in this country to use minimum tillage in my own operations on a broad scale. That was a very significant thing in those days many, many years ago. So I don't take any back seats at all on that score, and I suspect that there are a lot of farmers that are in that same category, that if they have choices as to how they'll handle their farm operations, most of them, the vast majority of them, Senator Kerrey, are going to carry out their farm operations in an environmentally sensitive way.

Senator KERREY. The question was do you expect the Ag Productivity Act to get an increase in funding?

Secretary YEUTTER. Harry, do you want to——

Senator KERREY. Last year, it was zeroed out. We put $4.5 million in there. You took credit for it. Now, are we going to get more in fiscal year 1991 or not?

Secretary YEUTTER. We'll have to go back and look at the numbers, Senator Kerrey. We'll advise you later.

[The following response was subsequently provided for the record:]

Subsequent to the hearing, USDA supplied the following information: Agricultural Productivity Research under Subtitle C of the 1985 Food Security Act is proposed in the 1991 President's budget at $4.5 million. Related low input/sustainable agriculture research is also proposed within ongoing programs and $1 million is proposed for this research within the National Initiative for Research on Agriculture, Food and Environment.

Senator KERREY. Thank you very much.

The CHAIRMAN. Senator Daschle.

Senator DASCHLE. Thank you, Mr. Chairman.

I think one of the things that comes out of a hearing like this is, hopefully, an arrival at a better, more common understanding of some of the terms. I couldn't help but think, Secretary Yeutter, in response to one of the chairman's questions, that we need to continue to strive toward a better common understanding of terms. One of your answers was—and I understand the basis for your answer—that we are focusing so much on health concerns we are not focusing enough on economic concerns.

I think in this day and age one could make a very strong argument that health concerns are indeed economic concerns; that it really isn't all health or all economic; that, for a lot of different reasons, the very concerns we are talking about here turn into economic concerns very quickly.

I was like Senator Kerrey in that I held a series of hearings out in South Dakota on agriculture, and Hartford, South Dakota has a situation with regard to nitrates in their water now that it is causing them to consider applying to you [USDA] for a significant grant to pipe water from another source as a direct result of that health concern. I am sure you share that, but would you care to elaborate at all on what you were talking about with regard to health and economic concerns?

Secretary YEUTTER. Your point is well-taken, and it is one that I have tried to articulate in a lot of meetings, both within the Government and outside the Government. My own view is that one must consider both. Without question, the health concerns are the most compelling. They have to be the predominant consideration. But my view is that in almost all cases, they cannot and should not be the only consideration.

Again, one has to balance everything in making these kinds of decisions, and if we start excluding particular factors, then we are likely to make unsound policies. And there have been some legislative proposals in this and other areas which would call for the exclusion of economic issues from decisionmaking totally. The Delaney Clause in food safety is an example of this, and as you know, we have worked with EPA and others in attempting to come up with a negligible risk criterion that we believe makes a whole lot more sense because that has economic implications of very major significance.

When one can detect residues to 1-to-1 trillion today, one must wonder about the wisdom of banning a product when it has a residue or a component of one part in 1 trillion.

So it is those kinds of bizarre situations that we really have to avoid, and that is why one needs everything on the table in the decisionmaking process or the policymaking process, and then people like Bill Reilly and me get paid to balance those interests properly, and we'll try to do them properly; if we don't, somebody else can come do these jobs.

But you are also correct and perceptive, Senator Daschle, in pointing out that health concerns do have economic dimensions, and if people become concerned about health aspects of an alar or whatever it is, that those consequences may flow irrespective of what we do or how we handle things.

These are delicate issues, and as was pointed out earlier, they often become very emotional—sometimes hysterical—and that is typically not a good atmosphere in which to make public policy decisions. So we have to try to avoid that and, I think, try to demonstrate confidence among the American public that regulators, the Bill Reillys and Clayton Yeutters of the world, know that they are doing and that we will balance interests in a proper way that will protect the health of the American public.

Finally, I neglected earlier to comment on Senator Kerrey's remark about differences between EPA and USDA that need to be surfaced and debated. My judgment—and Administrator Reilly can comment if he wishes—is that we have the best relationship between these two agencies in my memory—and that goes back 20 years—and if there are differences, they are nuances. I do not sense differences between these two agencies in fundamental policy.

Senator DASCHLE. Let me just point to what I thought may have been a difference, and for clarification it would be helpful if you could both elaborate.

You had indicated in your opening statement that you really saw no need for additional regulation. I took from Mr. Reilly's comment on a couple of occasions in response to various questions that have been asked that there may be a lack of adequate regulation in certain areas pertaining to agriculture. One in particular may be that—and I don't want to put words in his mouth—relating to fertilizers. Could I have a clarification of your position with regard to the need for regulation dealing with the fertilizer area?

Secretary YEUTTER. Let me just start by clarifying a bit. Maybe I oversimplified in my comments, because I didn't mean to leave the impression that I see no role for regulation in this area. I agree with Senator Kerrey's earlier comments that some regulation in ground water is simply inevitable. The question is how much, where, and where in terms of issues and where in terms of governmental units. And there will be a lot of discussion and debate about that. But I would see that as being secondary to what can be done outside of the regulatory area. In other words, I believe we would make a big mistake if the response were predominantly regulatory. I believe it needs to be predominantly focused in research, education, technology transfer, correction of farm bill stimuli that may cause difficulties in this area and so on, and secondarily on the regulatory side.

Senator DASCHLE. I'm glad you clarified that. I did not have that impression from some of your earlier remarks, and that goes a long way to clarifying and perhaps even coordinating a policy with regard to the administration position as a whole.

But Mr. Reilly, could you talk briefly about your view as to the need for whatever new regulation in the fertilizer area?

Administrator REILLY. Let me say, Senator, that we already have some authority in the Safe Drinking Water Act to set standards for fertilizers, for nitrates, and we——

Senator DASCHLE. If I could interrupt—maybe I misunderstood you, but did you not say on two occasions, that you did not have the regulatory authority——

Administrator REILLY. We do not have the same kind of authority with respect to fertilizers that we have with respect to pesticides was my point.

Senator DASCHLE. The same kind of authority.

Administrator REILLY. But we are, I should say, looking across the spectrum of environmental problem that we address, that touch upon our responsibilities, and considering all sorts of options—regulatory options by rules and regulations that we already have authority to issue—and where we conclude—and we have not completed this review that I described earlier—that more is needed, we will not hesitate to advocate and propose those.

I might respond a little bit to the concerns. Questions have been raised about the divisions that affect people as they look at some of the problems that we are addressing here today. Those divisions sometimes are chasms; there is no question. I recall earlier this year a farm group was very interested in having me give a speech and was quite disappointed that it looked like there was a conflict. And one of my people asked why was it so important that I do it, and the person tendering the invitation said, "Because we want our people to see what they are really up against."

Well, that's not a role I welcome, but particularly to this committee, I think we need to be pretty clear that as a consequence of the review of existing pesticides that we are conducting right now, we are going back through a whole range of chemicals that have never been subjected to the modern scientific analysis that now is required when a new registration is conducted of a pesticide.

We should be clear that very likely we are going to see a good number over the next few years of those chemicals have problems, and we will take vigorous and aggressive action when they do.

Now, I hope that we will be seen to have care and scientific quality and integrity in the regulatory process when we take those actions, and that will go some way toward reassuring both that parts of the public that thinks we are not moving fast enough or going far enough and others who think that these actions have unacceptable economic consequences.

But we are trying—and I certainly learned this with respect to the alar experience—we are trying to chart a prudent course through a very passionate time. And there is no question that we are going to see major changes in practices that affect pollution and waste in the United States, largely because our traditional methods have proved insufficient to the task. We will use our authorities, where we have them, in somewhat new and unusual ways, as we did when we issued a municipal waste combuster and incinerator rule last month and defined best available technology, a condition for getting the permit, to include a 25 percent waste recycling, simply to reduce the loads of the stuff going in and hopefully to reduce the ash and the toxics outside.

We will do something similar with respect to landfill regulations, and many of these will have impacts both, I think, on public health—and our professionals rated public health issues recently in a report called "Unfinished Business", and they put pesticides and food safety issues relatively near the top of serious concerns in the eyes of professionals. I think that is an underlying reality that it is my job to make clear and to act on, and we will.

Senator DASCHLE. Let me just ask one last question. I am very pleased to hear that a working group on water quality has now been constructed in the Department. Mr. Secretary, there have been other working groups—the working group on the environment and agricultural chemicals in the past has served in various capacities—but the lament that I hear from those involved on that working group in the past is that they had no power; there is no coordinating authority, and largely whatever recommendations they made fell on deaf ears.

What assurances can you give the committee that this is going to be a different working group, that they will have some authority, that they will be heard, and that ultimately they can have that coordinating effect within the agency that is going to be required to do the job this time?

Secretary YEUTTER. That's a legitimate question, Senator Daschle, and we should respond to that, because in many instances working groups have been ineffectual, and their consulates are being ignored.

In responding to that, I'd like to ask Dr. Mussman, who is the chairman, to articulate fundamentally how he sees his role at the moment and what his principal priorities are, to just try to give you a feel for that.

Dr. MUSSMAN. Senator, I really feel that the Secretary could do as good a job on this as I can, but since he has deferred to me, I'll try to tell you how we feel.

In his testimony this morning, the Secretary described the mechanism by which major issues in the Department are being managed, whether it be food safety, water quality, global climate change, things of that nature—there are about four or five that are very high on the list.

The Department, under Secretary Yeutter's leadership, established a Policy Coordinating Council which is chaired by the Deputy Secretary, Jack Parnell.

The mechanism—through that Policy Coordinating Council to deal with individual issues such as those I mentioned—was to set up working groups that would cut across all the agencies, not only the agencies, but the Assistant and Under Secretaries who deal with those agencies.

The first working group that was created was the Water Quality Working Group. Jack Parnell, in establishing it, gave the charge to the working group, in naming me the chairman, to review policy and program activities across the Department. We were to make recommendations if we saw there were problems of coordination, cooperation—anything that would suggest that the Department was not moving in concert, all agencies one with another. They all had to have an ultimate objective that was more or less in the same direction.

We felt that was a very solid charge, and we have no problem with that. We enjoy having that kind of a charge.

The mechanism on the other end was that if we were to have a problem with, say, one of the agencies going off and doing its own thing, doing something that was seen as being contradictory to the general position of the Department, the working group would then bring that to the attention of the Policy Coordinating Council, Jack

Parnell, and the Assistant and Under Secretaries, who have the role of making certain that the specific Assistant or Under Secretary gets the errant agency back into step.

I really don't see that there is going to be any problem. In fact, we have the mechanism in place, as I have just described; but the attitude, the general feeling among the agencies right now is that we have a Department that truly believes water quality is very high on the list of priorities, and whether there is a mechanism in place to make sure something happens or not, something is going to happen.

The working group is committed to doing what needs to be done.

Senator DASCHLE. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Boschwitz.

Senator BOSCHWITZ. Mr. Chairman, I am always interested in what the competition does. I tell my sons in my business that they ought to go out and take a look at the competition and make sure we are competitive.

I was recently in Europe. If you look at the fields in West Germany and England, they have some tracks in those fields. They don't plant in those tracks because those tracks give them a way of knowing where they are going to fertilize. They fertilize not once or twice, but they fertilize perhaps a dozen times. They also use a great deal of pesticides. As a result, their yields on wheat are very high. They even have 10-ton clubs on a hectare, which is about 155 bushels of wheat. That's a good corn yield. Even in Indiana or southern Minnesota, that's a pretty good corn yield. The Europeans get it in wheat because of the amount of pesticides and fertilizers that they use.

My friends in the environmental community and I question what is happening to the Europeans and their land. I address that concern to Ms. Wilcher or to the Secretary or to the Administrator. As we legislate here we have to think about what is going to happen to our farm products and how they are going to sell in world markets and whether or not those world markets are going to be taken away. What is happening to their land?

If we were to use chemicals at the pace that they use chemicals, I presume we would really foul our environment.

Secretary YEUTTER. That's correct, Senator Boschwitz. I'll start with a response, and then Bill, you and your folks can add based upon your own knowledge and experience.

I have discussed that with our European colleagues over the last 6 to 12 months, Senator Boschwitz——

Senator BOSCHWITZ. So have I.

Secretary YEUTTER [continuing]. Particularly in Germany, but also in the Netherlands and a couple of other places. And your basic preliminary premise is an accurate reflection of what is transpiring there. They use levels of fertilizers and chemicals far beyond ours here in the United States.

Senator BOSCHWITZ. Three times.

Secretary YEUTTER. Yes, in many cases in that vicinity. Therefore, they are having more problems with water quality than we are. In some areas of Western Europe, those are becoming very pronounced and very troublesome to society. So they are beginning to look for ways to respond to that.

As I indicated in my earlier testimony, their difficulty is that politically they are unwilling to change their underlying farm policies that stimulate that immense usage of fertilizer and chemicals, and until and unless they are going to do so, they can respond only by contrary policies that cost them additional money—in other words, if they choose, they can proceed as they are at the moment, paying out lots of money to stimulate the use of those chemicals and fertilizers, and then lots of additional money to try to trim back in some manner by taking land out of production or in what other way they can begin to minimize that usage.

That is not an efficient way of responding to the problem and probably not even an effective way of responding to the problem, but again, the concerns are greater in some countries than others, very high in the Netherlands, for example, where their water tables are so high and where much of the country, as you know, is below the water level of the surrounding seas. So they are moving rapidly to quite restrictive practices and very intense regulation in an area like the Netherlands, and they are going to that in some other parts of the community as well.

But as Administrator Reilly indicated earlier, an ounce of prevention is worth a pound of cure, and they may be a whole lot better off if they followed some policies that would have prevented these problems from arising. They do have a major problem; it is getting worse; it is likely to get worse in the future. It has significant policy and regulatory implications.

Administrator REILLY. Senator, if I might add to that, I think the environmental effects of the common agricultural policies are disastrous for Europe. If you look at the condition of the countryside in France or England, for example, you find that all of the mistakes that we made, and more, in the fifties in this country are being carried out there. Hedgerows are being knocked down; variable features of the topography that are associated for a millennium or more with historical events and with cultures and communities are being leveled to increase output. In the Netherlands, the ground water table has been dropped very substantially in many areas, so wetlands have dried up, and trees, 200 year-old trees in some cases, groves have been lost. Wild life is way down throughout Western Europe. Bird life in the Netherlands, the migrations, they no longer have the wetlands and the grasses that used to go with them, and all of that is down. There are effects in Italy that we have seen. Channel-straightening throughout Europe is underway. And as a result of that, environmental organizations increasingly, and I think somewhat belatedly, are identifying agricultural problems and the CAP as a major impediment to environmental protection throughout Western Europe.

We now see enormous sums being spent, particularly given the size of the land area, in the Netherlands to try to get the horse back in the barn.

The most ambitious environmental plan I have seen for any country is the Netherlands' plan, which proposes not just 10 or 20 percent reductions in loadings of various pollutants and chemicals, but 80 and 90 percent reductions within a matter of only 10, 15 years. And they are putting their resources and a significant percentage of their gross national product now largely into trying to

restore an environment that has been very badly affected, both by the fact that they are a country that gets water and air from many others, but also because of practices they have conducted, very high-input agricultural practices that they profoundly regret, having talked both to the Prime Minister and to the Queen about some of these issues.

Senator BOSCHWITZ. The Dutch also have problems with their animals, I believe.

Administrator REILLY. Yes, the highest ammonia.

Senator BOSCHWITZ. I am a practical fellow. I don't want to legislate my farmers out of business. Despite what you say, the Europeans are still offering $18 a bushel for beans. That has to be an environmentally disastrous approach.

In making the judgments on the environmental aspects of the 1990 farm bill, can I reasonably expect that the European competition is not going to eat us up, or at least is not going to replace us, and that we are not going to penalize ourselves in the process while they continue those practices? Can I tell my farmers that they can reasonably assume that the Europeans are going to call a halt to this kind of environmental nonsense?

Administrator REILLY. Well, I don't know—and I'll let Secretary Yeutter comment on the likelihood of their reducing some of their subsidies and supports in the near term—but it seems to me that given the unprecedented high level of anxiety and public attention to these issues—and we saw it at the economic summit last summer in Paris from all of the heads of government represented there—I think it very likely that in the years to come, we are going to see some profound changes in agricultural practices for environmental reasons. Many of the same kinds of concerns about sustainable agriculture that we are increasingly seeing here are being proposed there. I think they need to appreciate that these, as the National Academy of Sciences report recently said, can be productive, technologically modern, effective forms of agriculture, and they can do vastly more to protect the environment than current practices.

Senator BOSCHWITZ. In conclusion, Mr. Chairman, I must tell you that to me it is outrageous. They object to our use of hormones and therefore prevent us from sending them certain meats, but their environmental practices are, as you say, from the fifties.

As we work on the Clean Air Act that is now on the Senate floor, how can we penalize some of our manufacturing sector that makes automobiles that, let's say as an example are $600 or $800 more expensive, and ship offshore the jobs from that sector. I have often thought that perhaps we should have some kind of a countervailing duty, and the countervailing duty should be predicated upon the environmental practices so that the Europeans, by abusing the environment, don't get an economic advantage over us.

Maybe the Export Enhancement Program should somehow be predicated on how the exporter that we are competing against abuses the environment. Perhaps we give a larger enhancement in the event that we are competing with those who abuse the environment, because what they do, of course, has to affect us not only economically, but in our environmental lifestyles as well.

Secretary YEUTTER. If I could just make a quick response to that. As you well know, and as the other members of the committee

know, we have a final U.S. agricultural negotiating position that was surfaced in Geneva some weeks ago. I would consider that position to be a very environmentally sensitive one because it would call for a reduction, over time, in those $18 soybean support levels and a reduction, over time, in the export subsidies that are used to dump these surpluses on the world market and a lot of other things that would be beneficial in this area.

As you also know, Senator Boschwitz, I have long made the argument to my European colleagues that they use this environmental challenge that they have as a basis for making fundamental changes in their agricultural policies, just as we should as well here in the United States. The magnitudes, however, are much greater there. And it seems to me they can make very persuasive argument for doing so to their citizenry and throughout their governments, and they ought to be able to generate strong environmental support to changing the common agricultural policy to avoid some of the destructiveness that Mr. Reilly mentioned.

Senator BOSCHWITZ. When the Germans talked to me about reunification and told me to look beyond the Second World War, I said: Change it in your agricultural policy, too. Of course, they remember the Second World War and hunger, so they've decided they are going to have self-sufficiency. I said if you want us to think beyond the Second World War on your geopolitical situation, we want you to think beyond the Second World War on your agricultural considerations, too. I might say that that did not impress Mr. Kittle.

Secretary YEUTTER. That's not surprising.

Senator BOSCHWITZ. Although it impressed some of the other people there.

The CHAIRMAN. Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman.

First of all, I'd like to ask the Secretary if environmental issues can be raised in the GATT round. Is it possible to do so within that context?

Secretary YEUTTER. It is in a sense, Senator Conrad, in that any of us can put anything on the table we'd like. Whether or not we can persuade our trading partners to do what we might want to achieve in this area is another matter, but there would be nothing to preclude that. It would have to fit within the policy context somehow, of course.

Senator CONRAD. I understand. I have, as you perhaps know, long advocated that if you look at the major producers that it would make great sense from an environmental standpoint as well as from a policy standpoint to have some requirement of a coordinated conservation reserve and coordinated set-aside.

It seems to me to make very little sense for us to idle up to 80 million acres at a loss of 1 million jobs, $40 billion lost economic activity while our major competitors simply fill in the difference, and we don't benefit either from an environmental standpoint or from an economic standpoint for the sacrifice that we have made.

In my State the sacrifice has been enormous. The small towns are dying, and they are dying very quickly because of an idling of base out there. And if it makes sense for us to have a conservation reserve—and I think it does—and makes sense for us to have a set-

aside—and at times I think it does—then it would certainly make sense for our competitors to do so as well and on some coordinated basis.

I would very much urge you to table a proposal along those lines.

Let me move quickly, because time is fleeting. In California a major initiative is being offered that would, as I understand it, prohibit the use of certain pesticides and herbicides not only in terms of production in the State of California, but as I understand it, would ban the importation of products that had had those same pesticides and herbicides used on them.

I'd like to know if the Department has a position on that initiative, if so what it is, and second, what you see as the implications for that initiative. It strikes me it has very dramatic potential implications.

Secretary YEUTTER. I'll start on that one, if I may, and then I'm sure Bill would like to augment what I have to say.

I was given a briefing on the California proposals just a few days ago, Senator Conrad, and they trouble me tremendously. I'd like to just give you a simplified answer by saying that if there were a classic example of the need for harmonization, what is happening in California is that example. In other words, we have a State that seemingly wishes to go its own way, and for what I would deem to be most unpersuasive reasons.

The argument, of course, that is made in this kind of situation is, well, if we Californians want to impose greater safety standards in the food area or wherever than the rest of the country does, why shouldn't we? If you folks back in Washington, D.C. are not as conscious of the health risk as we are, we ought to be able to go further. That is superficially appealing, but upon further examination can be terribly destructive from a policy standpoint.

We really need to have uniformity of food and health regulations, not only within the United States, but internationally. We talked a little bit earlier about the hormone dispute with the European Community. If we had harmonization of standards, we wouldn't have a hormone dispute with the Community. We are trying to get this done in the Uruguay round, as you know, Senator Conrad.

One of the points I made—I just came back from California, and I addressed some groups out there—one of the points I made was that we will have absolutely no chance of convincing the rest of the world to adopt harmonized food standards if we cannot do so in the United States, because the immediate reaction from people elsewhere in the world who really don't want to harmonize with us is going to be: Gee, why are you insisting that we harmonize with you? You cannot even get California to harmonize with you.

So we shoot ourselves in the foot when we go off on individual tangents like that.

Senator CONRAD. Do you have any analysis of what would happen to food prices in this country if, in fact, that California initiative were successful?

Secretary YEUTTER. If it were to spread to other States, it would be very substantial indeed. I did see some estimates of what the California initiative would cost in California, and I'd be glad to share those with you. Those numbers are not national in scope, but

obviously they could be interpolated nationally, and they show dramatic food price increases.

Senator CONRAD. By "dramatic", could you give us some sense of scale?

Secretary YEUTTER. As I recall, some of them on specialty crops—meaning fruits and vegetables which are, of course, the principal crops in California—would be in the magnitude of 40 and 50 percent increases.

Senator CONRAD. I would be very interested in your making available to us any information that you have, any analyses that have been done, in terms of the implications of that initiative not only for California and food prices there, but what the implications might be for the rest of the country, because again, as I understand it, it would prevent the importation of products that had had those same pesticides and herbicides used. Am I correct in that understanding?

Secretary YEUTTER. Yes, that is correct—well, it would prevent them from coming into California. They could not, obviously, prevent them from coming in elsewhere. But that would have an effect. We'll give you the California numbers. These are not USDA numbers, so you'll have to make your own evaluation of their veracity. But we'll be glad to share with you what we have available.

[The following response was subsequently provided for the record:]

Subsequent to the hearing, USDA provided the following information: The data on the California initiative is part of a study being conducted by the National Agricultural Chemicals Association (NACA). The study is in draft and will be provided to the committee when it is made available by NACA.

Administrator REILLY. If I could just make a point, Senator, I think Secretary Yeutter stated very well the underlying rationale of the principle of uniformity as we develop standards for pesticide residues in food, for example.

The President's food safety proposals do in fact contemplate that as we go forward to conduct all of the scientific research and do the analyses that that is a chemical and determines that it is safe for use on food products, that then everyone else all across the country would be expected to accept that result, and that would be the standard that would apply uniformly.

We do grant, however, in the package the possibility of a particular area, a State, being able to make the case that because of special characteristics of that State, of its ground water, for example, or its vulnerability, or the heavy use of a chemical in a particular area on a particular crop, that there might in some cases be a justification for some variation, but the burden would very much be on the proponent to make that case and to prove it, given the fact that we would already presumably have subjected the pesticide to all of the modern science that we know how to do.

As an agency, we have not yet analyzed that initiative in any detail. We don't have a considered opinion on it yet. It is a very complex and ambitious one. It goes well beyond anything that we have seen anywhere else. I think I would say that in general, it reflects a very strong sense of concern about pesticides and food safety in society at this time, particularly in our largest State, one that imposes on us at the Federal level an even greater burden to

establish the energy, the vigor, the integrity of the way we go about our business, and that is certainly, as of now, the message that we take from that initiative and the apparent public support that it is gaining.

Senator CONRAD. I appreciate that response. I think, as you do, that it certainly sends us a signal that all of us have a responsibility to pay attention to. I also think it is terribly important that we understand the implications of this, because these, as I understand it, would certainly not be limited to the State of California. These are implications that would potentially have a significant impact nationwide——

Administrator REILLY. I believe that's correct.

Senator CONRAD [continuing]. And I would urge your agency and USDA, as quickly as possible, to do an analysis of this and the implications, and to try to fashion a position. If it were just a California issue, I think obviously you'd leave it to California, but this goes far beyond the boundaries of California. I think the Federal Government needs to have a response.

One final point that I'd like to make, Mr. Chairman, begging your indulgence——

The CHAIRMAN. No, take all the time you wish. You have waited here a long time.

Senator CONRAD. I appreciate it.

The final point I would like to make and draw your attention to concerns government and the public. We have almost a textbook case study in my State of how not to do things from the Federal level, and that is with respect to the swampbuster provisions of the 1985 farm bill.

If we want to generate a backlash of anger, and if we want to generate a backlash of indignation and a feeling that the Federal Government operates with a heavy and arrogant hand, that's the model that we ought to follow in other legislation. I must say I agree with the Secretary; I think most farmers are in fact environmentalists, deeply concerned about the environment because that is from whence they draw their living. It is not good policy, in a farm bill, to say to people, OK, you have farm program benefits, and therefore we are going to tell you from Washington how to run your operation, and we're going to put people up in small planes to spy on you, and we're going to have people coming in to "rat" on you. That is not the way to proceed—people so deeply resent this approach that there is a backlash that will lead to more damage.

I have friends who are in farming who have torn out trees, who have taken all kinds of steps that are counterproductive to environmental concern, because they are so angry at the way they have been dealt with by the Federal Government on the swampbuster provisions.

And if you think about it, a law that provides a drop-dead penalty, maximum penalty, no matter what the infraction, whether it is unintended, inconsequential, or major, the same penalty, is radically wrong. That is the swampbuster provision. Farmers lose all farm program benefits with any infraction.

We have people running around the State of North Dakota, looking to find somebody that they can nail and take away all their farm program benefits, and that is a drop-dead penalty. That's the

end of the line; because, after receiving this penalty those people cannot survive economically.

I just want to say that there is frustration and anger out there at this kind of operation and it is something we should learn from. Wherever we can, we should use incentives, voluntary means, so that people are encouraged to do so. Obviously, where it is an immediate threat to health, we may have to have a regulation that operates in a different way. But I would urge you to look for ways that government can deal with people in an open-handed way, and deal with them with an understanding that most people want to do what is right and be decent and be fair. This kind of heavy-handed stuff where the Federal Government goes out there and nails people is just the wrong approach and will be counterproductive in the long term.

I just wanted to share that with you.

Secretary YEUTTER. I should just say amen to that. I agree with everything you said, Senator Conrad. Sometimes, in democratic societies, we swing the pendulum too far, and there is one in which many people would concur that such was done, and that goes back to the point I was making earlier. We've got to have sensible, balanced approaches to these issues, and sometimes we go too far and we get in trouble, and then we have to back off and go back in the other direction again. Too often we have difficulty governing in the middle in this country, and there is an example.

Administrator REILLY. Senator, I would say that your concern about the administration, the effective, fair and open administration of Federal programs, is one that I appreciate and I understand. And I hope that in our programs, we do a better and better job of relating to the public in a serious and responsible way.

But I think it is important to point out that the resources we are trying to protect through swampbuster are extremely valuable and under very great threat. We continue to lose in 1990, according to the latest information we have, which is a few years old, between 300,000 and 500,000 acres a year of wetlands. They play an enormously important role in all sorts of things, not the least of which is ensuring the abundance of wildlife and game in the very areas where the prairie potholes are under siege.

I am very aware, particularly in the last couple of months even more so, of the strong feelings that people have about efforts to try to manage lands and protect these resources on privately owned lands. But I really think it is a matter of better forming expectations about the extreme importance of the resource, the role it plays in providing all sorts of environmental services, and hopefully, bringing the community at-large to appreciate that we can't go on losing wetlands at the rate we are losing them. And when you have a program such as our farm programs that do provide very significant benefits to a particular group, I must say I don't think it is unreasonable to ask in return for that a greater level of protection and perhaps even some sacrifice for these resources that are so important.

I personally thought we had a great breakthrough with the Food Security Act of 1985 when finally we brought conservation elements intimately into the commodity programs, and we put some real energy and teeth, and it was more than just hortatory expres-

sions and education. I really very much hope that we can hold swampbuster, perhaps administer it more effectively. I have heard criticisms that in fact there hasn't been very vigorous enforcement in some areas and that there is not a lot of resources, money, that has been held up to farmers. And you can't point to that many people, at least, who have really been seriously disadvantaged by it.

I am not informed in detail about that, but I think we need to hold the provision.

Senator CONRAD. Well, I'll tell you, I think you are making a profound mistake—profound. There is no difference on the question of the importance of maintaining the resource, no difference. It is how you do it.

And I will guarantee you, if we understand human nature at all, we should understand that if you hit somebody on the head with a mallet, you will get an angry reaction. If you go out——

Administrator REILLY. I think the model——

Senator CONRAD [continuing]. Let me finish—if you go out there and say to people, "This is a national priority, and therefore we are going to create a way of providing an incentive to get accomplished what needs to be accomplished," that is a totally different way of approaching folks than to say, "You are getting benefits over here; because you get those benefits over here, you do it our way, chump, or you lose everything." That is the way we are dealing with it now, and that is a profound mistake in dealing with people. And I hope that that message is heard, because if we don't learn that lesson in how you deal with people, we'll fail in the larger test of trying to protect those wetlands, because those people are the ones who have to protect them. And if you alienate them and anger them, you are not going to get the result you want.

Administrator REILLY. I accept that. I recently saw a film about a successful experience in one county—I have forgotten where exactly it was—but it involved extension agents who certainly, over time, have not had the reputation of succeeding by using the "stick" approach, the "mallet". It involved them and the farm community, environmental groups, local government, all in an exercise of generating information, identifying the key wetland resources, their functions, their values, their role in sustaining bird life and game of all sorts. I was given to understand this had been terrifically effective, that the community had come together around protection of these wetlands, these potholes, and there was not any significant opposition to the program.

So I think there may be a variation in some areas, perhaps as you suggest according to the way it has been administered. But I do think the principle that is embodied in that program is a valid one and ought to be maintained in the next farm bill.

Senator CONRAD. Believe me, I have no difference on the question of the principle of maintaining wetlands. I do have a profound difference in the way we are going at it. There has to be a better way of going at it. And I'll bet if we'd work together, we could find it. I bet we could find a way to provide incentive for folks, not even with dramatically more dollars, but by taking dollars from one place and putting them in another place, we could find a way that would say to people: "This is a national treasure that needs to be

preserved, we are going to work together with you to provide an incentive to do that." If it is a national priority, then we ought to find a way to send that signal in a positive way, not in a punitive way. It will make all the difference in the world with the kind of response we get. I really believe that deeply, and I hope we can find a way to work together to do what is terribly important.

Administrator REILLY. Well, I believe very much in building consensus and in working with a variety of interests to try to hammer out compromise solutions to a lot of these very difficult problems.

On that issue, I would only point to the fact that for 20 years at least, we have known in this country of the importance of wetlands; we have had laws to try to protect them, and they have abjectly failed to make a real dent in the steady erosion of the wetlands. We have clearly got to ratchet up by an order of magnitude our commitment to their conservation.

Senator CONRAD. And again, I just hope that we find a way to approach people in a manner that encourages them to participate that doesn't alienate them. And I tell you, I don't think it would take any effort for us to find a way to do that. I am convinced that we could find a way that would get everybody working together rather than having people at each other's throats.

Administrator REILLY. Well, it is very important that we do that; I certainly agree. We have a program in which we regulate with the Corps of Engineers certain wetlands that affect the waters of the United States, that do not include typically the kinds that you are talking about, although a substantial majority of the wetlands losses appear to have occurred over recent times, at least, as a result of agricultural activities. So we have clearly got to bring these interests together more effectively than we have.

Senator CONRAD. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Finally, I might ask a hypothetical question, Mr. Secretary. You have stated before that you would be happy to see any way that farmers could lower their costs of production, and we all agreed with it. You told the American Farm Bureau on the 8th, quote: "I suspect there is not a farmer in this room who would not reduce his level of agricultural chemicals if he could do so." Well, everybody agrees with that.

Let's say we found a program that could cut farmer costs by $10,000. Would you put your Department on record supporting it? And so that I won't be speaking just in the abstract, I'm talking about a pilot demonstration program. In Iowa, I am told where 50 farmers saved an average of $10,000 a year by reducing inputs and following new practices. Are these the kinds of programs that you are willing to put money into, supporting, seeing how well they might work in other parts of the country?

Secretary YEUTTER. Certainly. They will, however, have to compete with other programs in this area that might be equally beneficial or perhaps more valuable as we evaluate this issue. So one would have to analyze the merits of particular proposals. But we are spending about $155 million that I mentioned earlier—about $60 million is for research. I would put the effort you talked about in that category. So we have a $60 million program already. There is no reason why that cannot fit.

The CHAIRMAN. I might say when we try to get some of that research money into areas of low input or sustainable agriculture, I think it would probably be easier breaking into Fort Knox and picking up the money than it is breaking into the Department of Agriculture and picking it up. There has been—and this long preceded your tenure as Secretary of Agriculture—but there has certainly been an antipathy toward Congress or anybody else who has sought money for alternative agriculture. Those of us who would at least like to find out if it worked, you'd think we were coming to major chemical companies, major pesticide companies or whatever else, asking for the money to find out ways to use less chemicals.

I would urge, especially with the billions and billions of dollars we are spending in agriculture, to free up a little bit more money for experimentation and ways of finding lower input or sustainable concepts. Among other things, it is going to be necessary if we are going to really remain competitive with GATT.

Secretary YEUTTER. I agree with you, Mr. Chairman. There is certainly no antipathy on my part. As you well know, I am committed to our international competitiveness, and if we can reduce costs of production in the United States, I would be delighted.

Net income, of course, is the bottom line, and that is the essential point I have been making. If we are going to reduce costs by lower levels of fertilizers or chemicals or whatever, we have to be concerned about what that does on the income side—that is, the yields that emerge therefrom—and if we can gain more on cost reductions than we lose in income reductions if there be any income reductions, then obviously farmers will be better off and the environment will be better off. That's the ideal solution. We just need a lot more research in that whole area, as I indicated earlier.

The CHAIRMAN. I note, and some other researcher did in preparation for this hearing, that Jim Mosley, who serves as an adviser to you, Mr. Reilly, farms 2,300 acres in Indiana, and he says he doubts there would be a problem feeding the world with a 30 percent reduction in pesticide use. And he claims himself a 30 percent cut in pesticide use over the last 4 years. Now, that may well have some good environmental effects, but it has also got a significant bottom line effect of 30 percent less cost in that area.

I think these are things that we have to explore, and I would strongly urge they be explored more aggressively than they have in the past—on whatever bases they want—safety basis, environmental basis, or just a pure dollar and cents basis. It's like you have a car that gets x number of miles to a gallon, or you can get one that gets twice x, and so one costs you that much less. It is the same with farming.

Secretary YEUTTER. We have to explore it on all those bases, Mr. Chairman, because all of those issues are relevant. Where we are today from the research that I have reviewed is in a situation which is somewhat conjectural. I see some research results which indicate that some farmers—Jim Mosley, apparently, in this particular case—have been able to reduce their levels of inputs without adversely affecting their bottom line. I have seen some other research results which go in the opposite direction unfortunately and indicate that there were some rather dramatic reductions in net income when the levels of chemical usage were reduced.

The CHAIRMAN. That is why we have to spend some of that research money to find out how well this can be done, and that's why I'm in my 16th year on this committee, and much of that 16 years, I have had to really bang my head against the wall and fight like mad to just get a little bit of research money in this area. It is usually being turned away by people in the Department saying, well, you know, we know what we are doing, and don't bother us. And my reaction has always been: How do you know you know what you are doing if you haven't even tried it?

Mr. Reilly, my last question—I will have a number of questions for the record—but I have looked at the EPA's pesticide strategy, and I am concerned about the regulatory process, the pace of it. Let me give you some examples.

You sent me a letter in September where you said you expected action on aldicarb by this month. Now the Agency is planning to repropose the aldicarb decision. I guess that delays final action again. When does final action take place—or Ms. Wilcher, Ms. Fisher—either one.

Administrator REILLY. I'm going to let Ms. Fisher respond to that.

Ms. FISHER. Senator, we are still considering whether or not to repropose. We haven't made that a final decision yet. And sometime later this spring, we will make a determination whether we do need to repropose that. Usually it takes about a year between the time that we propose an action, get public comment, take that into account and finalize an action.

The CHAIRMAN. The reason I ask is I think aldicarb went into special review in 1984; is that correct?

Ms. FISHER. That sounds about right.

The CHAIRMAN. And then the first proposal for action was released in June 1988. Then, assuming you took action against it, the States have to develop a management plan, a regulatory plan, and that could take several years; is that correct?

Ms. FISHER. Well, actually, we have already started working with the States even though we have not completed and finished action on our State management plan. As Administrator Reilly said, we have already started funding the States to begin planning and begin setting up management plans. In the fiscal year 1990 budget, we have about $5 million from my program and $2 million from LaJuana's, to help the States begin to set up their strategies for dealing with pesticides and other ground water concerns. So some of that action is underway.

The CHAIRMAN. From the layman's point of view, I kind of look at this and see long, long, long calendars there, with nothing happening. It seems aldicarb is still a long way away. We have atrazine, alachlor, and some of the so-called "bad actor" pesticides are going to be placed in restricted use—that means that pesticide applicators would have to receive training and certification, if I am correct, to purchase and apply the restricted pesticide. Is that correct?

Ms. FISHER. That's correct.

The CHAIRMAN. I'm not sure training and certification is enough to protect ground water if that is one of the few results of your program.

How many chemicals are now in restricted use from a ground water concern? Are there any?

Ms. FISHER. Only atrazine is right now. Once we propose our rulemaking for restricted use for pesticides that contaminate ground water, we are expecting to process quickly approximately 30 chemicals that will become restricted use for ground water concerns.

The CHAIRMAN. Are we going fast enough? Again, I'm looking at this from a layman's point of view, and it seems awfully slow.

I recall a comment I made when I first came to the Senate that my children are going to live most of their lives in the next century. That was 16 years ago, and we are now closing in fast on that next century, and it is the most fervent hope of my children that I'll stop using that comment, they've gotten so tired of hearing it.

But I see actions that we were starting way back then, 16 years ago, and we're going to be into the next century, and sometimes a generation goes by. Can't this be done faster?

Ms. FISHER. There is no question, Senator, that we need to move more quickly. In fact, one of the benefits that will stem from the FIFRA 1988 process which the Congress passed last year is to accelerate our review of all these old pesticides, and ground water is one of the issues that we will be looking at as we go through that reregistration process.

So I don't anticipate it is going to take the length of time in the future that it has in the past.

In terms of working with the States, it has taken a long time. Part of the problem, or perhaps part of the reason, is we have spent a lot of time working with the States in terms of outreach programs and workshops and meeting with them to figure out their concerns and their needs both from a resource point of view as well as a technical point of view, as they move forward to set up management plans.

So it has been frustratingly slow for all of us, but the time has been spent doing some work that I think once we get these plans in place, which hopefully will be in the next year or so, we'll be able to take action quickly because of some of the ground work that we have been laying over the past few years.

The CHAIRMAN. I would hope so because I think, especially in rural America, you are going to find a great frustration if it is not. There is a serious problem without any question on ground water contamination. The Administrator has stated that more legal authority is needed.

Mr. Secretary, you have agreed that farmers want to do more, and that a number of States are not moving aggressively.

The farm bill is soon going to be here. We are doing our last couple months of hearings on it, and we'll start markup probably in April.

Now, what I'm concerned about is that if we are going to use the farm bill as a vehicle here, if we don't have some action, there may not be another chance for another 5 years, which goes back to what I was saying earlier to Ms. Fisher about the delays. So time really is not on our side in any way.

Mr. Reilly, you wanted to say something.

Administrator REILLY. Just apropos of that concern about delay, Senator, I think that is one of the most unattractive qualities of our existing pesticide law, FIFRA, is the huge amount of time it takes to act against a pesticide. But the most difficult to justify part of that is what happens after the Agency finishes its deliberations, and then you discover that under the law you have to go forward with a fullscale adjudicatory hearing that consider de novo all of the issues that the Agency has already addressed—and then frequently, typically, it goes into court as well.

I wouldn't like to let the opportunity pass to again state that that is one of the strongest features of the President's food safety proposals—to do away with that extra and unneeded step and, by that, reduce by probably about half the time it takes to act against a bad pesticide.

The CHAIRMAN. Well, I agree with you, and I wish you could move faster. I mentioned aldicarb earlier because that's not even at that level yet, and——

Administrator REILLY. No, we are not, but we have significantly more resources than we have ever had before under FIFRA 1988. We have the people who are doing the work——

The CHAIRMAN. I know, I know. I helped write FIFRA 1988, so I know.

Administrator REILLY. Well, I think we are going to hear the opposite concern raised when we get into the reregistration and we discover that a lot of these are problems, and we are going to be taking action against them. But we will do that as the data justify.

The CHAIRMAN. Well, I would mention to the panel—and I thank you for your time, and we have gone beyond the time we had set for this hearing—but I think if you look, those of you who have attended Senate Agriculture Committee meetings and hearings, the attendance that we had here throughout most of this morning is significantly greater than we normally have at one of these committee meetings. We don't have to talk about commodity prices and things like that to bring out the attendance.

I suggest that to you because it is reflective of the great concern that all of us are hearing in this issue. And I can only urge this, especially as we have the farm bill coming up—let's work together, all of us, whether it is in the Congress or the administration, to bring parties together. None of us—none of us—benefit by it, and no Americans benefit by it if we end up with a divide and conquer attitude.

So it is time to work together for a program that makes sense for all Americans. I have discussed some of these matters with the President, as I have with each of you. I think there are a lot of areas of consensus out there and of bipartisan consensus, but let's work at that, and not come out with statements that become a battle cry for people on either side. I think we should be trying to push sides together.

Secretary YEUTTER. I hope you will deliver that message elsewhere, too, Senator Leahy.

The CHAIRMAN. That message has been delivered right here, and it is a message I have delivered I think effectively in a lot of legislation for 16 years here in the Senate, and I'll continue to do it.

Thank you. We stand in recess.

[Whereupon, at 12:32 p.m., the committee recessed, to reconvene at 9:36 a.m., Wednesday, February 7, 1990, in room SR-332, Russell Senate Office Building.]

[Material submitted for inclusion in the record follows:]

APPENDIX

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, DC, March 26, 1990.

The Honorable PATRICK LEAHY,
Chairman, Committee on Agriculture, Nutrition, and Forestry, United States Senate, Washington, DC.

DEAR MR. CHAIRMAN: Enclosed are my responses to the additional questions posed to me from you, and Senators Harkin and Kerrey from the ground water hearing held on January 25, 1990. These questions are being submitted for the hearing record.

If we can provide further information, please let us know.

Sincerely,

CLAYTON YEUTTER,
Secretary.

Enclosure.

ADDITIONAL QUESTIONS FROM SENATOR LEAHY

GROUND WATER

Secretary Yeutter stated that there is a need for balance between health and economic considerations. He also pointed out that we need to recognize that there are health concerns with economic dimensions. Data show that it is costly to remove chemicals in treatment systems or find alternative supplies of water when there is pesticide or nitrate contamination.

Question 1a. In assisting EPA in calculating pesticide benefits for regulatory risk/benefit determinations, has USDA considered the costs of water treatment or the costs of ground water restoration associated with pesticide contamination?

Answer. To date, USDA has not supplied any information on the costs of ground water remediation or treatment to EPA in any formal risk-benefit assessment of a pesticide. We have, however, conveyed to EPA the results of a study we conducted in 1986 on the magnitude of ground water contamination and the potential economic costs of treating drinking water. Our studies showed that remedial responses to detections of pesticides or nitrates in ground water vary substantially in cost. Water treatment at the tap can be an inexpensive $25.00 for a faucet-mounted tap filter, to nearly $800 per year for providing bottled water for a family of four, to $12,000 to hook up a rural household to a public water supply system.

Question 1b. Are there plans to adjust the pesticide benefits calculation to reflect the costs of unabated contamination?

Answer. No. However, the Department will include the cost of abating contamination in pesticide benefits when that information is available.

Secretary Yeutter stated that more research must be done before reduced input methods could be implemented at the farm level. However, demonstrations in Iowa and elsewhere show that there are some proven methods for reducing chemical use without yield losses.

Question 2. How much *cost-share* funding has the Department earmarked to encourage farmers to adopt these methods?

Answer. No funds have been earmarked to specifically provide cost-share assistance for encouraging reduced input farming. However, the Agricultural Stabilization and Conservation Service (ASCS) has recently approved the use of an Integrated Crop Management (ICM) practice to reduce the use of nutrients and pesticides.

The practice is available for cost sharing under the Agricultural Conservation Program (ACP).

This new ACP practice has been approved on a limited basis for testing in selected counties in 1990. It will provide crop producers with cost-share assistance to develop and implement an integrated crop management system that will ensure pesticides and nutrients are used in an efficient and environmentally sound manner. During the first year, up to 5 counties in each State may enroll 20 producers per county in this demonstration practice. Producers who are approved for this practice will be eligible for cost-share payments of up to $7 per acre for small grain and row crops, and $14 per acre for orchards, vegetables, or other specialty crops. The maximum a producer can receive in one year is $3,500.

The amount of funding for this practice will be determined by local Agricultural Stabilization and Conservation (ASC) county committees. Each county receives an allocation to operate the ACP in the county, and based on the conservation priorities within the county, the ASC committee decides which requests from producers will be approved. With 250 counties volunteering for this practice in 1990 and a maximum of 20 producers per county, there could be a significant number of payments made to producers approved for the ICM practice, but the actual amount will be dependent on the decisions made at the local county ASC committee level.

Also, there is $23 million earmarked for water quality projects within the 1991 budget request of $176 million for ACP. These funds will be available to encourage the adoption of low-input practices to the extent that such practices are included in the project-wide and farm-level plans developed under the initiative.

Secretary Yeutter stated that not enough field trials have been done to convince farmers that reduced input methods are feasible.

Question 3a. How much funding has USDA earmarked specifically for this purpose? How many field trials are planned?

Answer. On February 9, 1990, the U.S. Department of Agriculture announced the establishment of eight water quality demonstration projects to show new ways to minimize the effects of agricultural nutrients and pesticides on water quality. Four USDA agencies have committed $3 million to the projects in 1990. The projects are located in California, Florida, Maryland, Minnesota, Nebraska, North Carolina, Texas and Wisconsin.

For FY 1990, $4.4 million have been allocated to the Low-Input Sustainable Agriculture (LISA) Research and Education program initiated in 1988. In FY 1988 and 1989, the program provided support to 78 team projects—or about 13 percent of the proposals submitted. Some 189 farmers are directly involved in 33 of the LISA projects. The emphasis in this program is on having farmer-ready results.

In the 1990 field season ASCS will test a cost-share program for reducing chemical use. The trial program is designed to encourage adoption of integrated pest and fertilizer management practices. It will be limited to 20 farms in each of five counties per State. The Agricultural Stabilization and Conservation Service will pay up to 75 percent of the cost of not more than $7 per acre for small grains, forage, hay and row crops.

During 1990, 10 Agricultural Research Service locations in as many States, expending $6.9 million, are conducting field trials of low-input systems. In addition, the State Agricultural Experiment Stations are funding this type of work through Federal grants and State funds.

Question 3b. How many farmers are involved in this effort?

Answer. A conservative estimate would be that 300 farmers are involved in these efforts.

Question 3c. Please explain USDA's plans for disseminating to farmers information on proven methods for reducing chemical use.

Answer. Besides demonstration projects and cost-share programs, USDA has an extensive information dissemination system which involves Extension Service, Soil Conservation Service and Agricultural Stabilization and Conservation Service offices in over 3,000 counties. These offices all work in conjunction with locally elected conservation districts and the ASC committees mentioned in the answer to the preceding question. The staffs of all 3,000 offices are being trained to deal with ground water quality issues and are supplied with updated reference materials as new knowledge becomes available.

The CRP has been proposed for achieving a range of environmental goals, including wetlands restoration and ground water protection. This has been suggested by EPA and other Federal agencies.

Question 4. Please explain USDA's plans for environmental targeting of the remaining 11 million acres authorized for the CRP. Please specify the number of acres used for each environmental purpose, and the targeting mechanism.

Answer. The U.S. Department of Agriculture (USDA) plans to enroll another 6 million acres into the CRP. We believe that a 40 million acre program is adequate to address the most pressing environmental problems in addition to allowing some continued participation under current criteria. The USDA proposal would change eligibility criteria so that the CRP can be directed toward areas with serious resource problems, particularly water quality. USDA is currently reviewing different targeting mechanisms to ensure enrollment of high value wetlands, tree acres, and cropland that has a significant contribution to nonpoint sources of pollution. While most water quality problems will be addressed through the voluntary adoption by farmers of best management practices, some problems will require that land be removed from agricultural production. We would hope to enroll 1 to 1.5 million acres of this type of land into the CRP. Such land could include: (a) cropland within 1,000 feet of a well within a State-approved wellhead protection area, (b) cropland in karst areas which convey runoff to ground water, (c) critical areas identified in State nonpoint source pollution plans, (d) areas that pose a significant threat to threatened or endangered species, or (e) filter strips.

Our farm bill proposal also calls for enrollment of up to 2.5 million acres of cropped and converted wetlands where wetland values are high and the costs of restoration are reasonable. We plan to offer landowners payments for permanent easements for these wetlands.

USDA has identified 37 hydrologic units to focus technology transfer for surface water protection in priority watersheds.

Question 5a. Are sensitive or high priority ground water areas targeted under the program?

Answer. Because of the often indistinguishable relationship between surface and ground water nonpoint problems the Hydrologic Units have not been required to be totally "ground water projects." The selection factors, however, included a specific opportunity to emphasize a ground water problem.

Of the 37 selected projects, at least 15 have a predominant ground water improvement objective.

Question 5b. If not, will sensitive ground water areas be targeted next year?

Answer. The criteria for selection of the 1990 Nonpoint Source Hydrologic Unit Areas included the following rating factors:

- The area has a priority problem identified in the States' Section 319 Nonpoint Source Water Quality Management Plan.
- The proposed activity would address principally a ground water problem.
- The problem is significantly related to agricultural activities.
- The treatment of the problem would provide measurable results.
- The problem presents a need for new and innovative solution measures thus improving water quality technology and planning processes.
- There is evidence that significant local support and desire to solve the problem exists.

Under the guidelines being developed for the fiscal year 1991 project proposals, ground water will be a significant requirement.

Question 5c. How will these areas be selected?

Answer. In March 1990, each State will be asked to submit up to two project proposals. These proposals will be reviewed by the Soil Conservation Service-Extension Service Education and Technical Assistance Water Quality Committee using the jointly developed guidelines to select 37 new projects.

Question 6a. What are the expected results of the hydrologic units?

Answer. The objective of the Nonpoint Source Hydrologic Unit Areas is to provide the technical and financial assistance necessary to solve identified or potential water quality problems related to agriculture in areas with the most critical agricultural related problems.

The expected results are reductions in the loading from agricultural chemicals and nutrients and, improvement of the quality of ground and surface waters to quality levels determined through State and local water quality planning processes.

Question 6b. Please provide examples of farmer involvement.

Answer. Farmers will be involved in:

- Selection of water quality treatment conservation practices that will reduce or eliminate identified water resource problems.
- Installation of a conservation plan that addresses the farmer's management objectives and the potential impacts of planned activities upon the ground and surface water resources.

• Cooperation with the Soil Conservation Service and Extension Service field personnel to measure and evaluate the effects of practices installed for water quality purposes.

• Cost-share assistance from the Agricultural Stabilization and Conservation Service for installation of approved conservation practice.

Question 6c. What changes in behavior are expected?

Answer. Changes in behavior expected are:

• Increased awareness of the existing and potential impacts of farming operations upon ground and surface water quality.

• Increased use of alternative farming methods that lessen the negative impacts of agriculture upon water resources.

Question 6d. How many farmers will be affected?

Answer. It is estimated that some 41,000 farms will be directly involved in the initial 37 Hydrologic Unit Area process.

Secretary Yeutter stated that there is research showing that reduced input farming can lower profits. This is undoubtedly true if there are no changes in management.

Question 7. Is USDA aware of studies on scouting, banding, and soil testing that show a negative return on investment? These are practices proven to reduce chemical inputs. Please provide studies USDA has compiled on the issue of low-input feasibility.

Answer. Reports of farmers' experiences around the country can be found to support either the argument that reduced input farming is profitable or the argument that it is not. Clearly, the effects on profit vary widely from one farm and area to the next. Farmers least likely to come out ahead are those who, as you suggest, are not able to commit the skilled management required, or who try to shift overnight from conventional to low-input methods. In a recent article by Pierre Crosson (Senior Fellow at Resources for the Future), he states: "The main obstacle to the widespread adoption of alternative agriculture, is that most farmers perceive it to be not profitable, or insufficiently profitable, under prevailing economic, technical, and policy conditions. The key analytical problem is to explain this, and the key policy problem is how to make the system sufficiently profitable so that farmers will adopt it on a wide scale."

Secretary Yeutter said: "I agree with Senator Kerrey's earlier comment that some regulation in ground water is simply inevitable . . ." The Secretary went on to explain that the question is how much, where, and at what level of government. The Secretary emphasized that regulation should be secondary to research, education, and technology transfer—the approaches taken over the last 50 years to address soil erosion.

Question 8a. Will USDA's traditional approaches assure the safety of ground water?

Answer. No approaches, traditional or nontraditional, will absolutely assure safety of ground water. Accidents may happen. People may ignore advice. People may break laws. However, research-education-financial assistance approaches have the greatest potential of any alternative methods for minimizing the risk of threats to ground water safety as posed by agricultural activities. This is because, with education and understanding, people adopt and support worthy causes as their own.

Question 8b. Specifically, does USDA's water quality program have measurable goals for:

—changes in farmer practices;
—changes in chemical use; or
—changes in water quality?

Answer. Our goal is to allow no agriculturally based contaminant to appear in ground water at higher than measurably safe levels. The degree of changes in practice to meet this goal will vary with soils, substrate materials, aquifers, climate and crops. We have included an evaluation component in the program to measure the effectiveness in terms of changes in farmer practices and chemical use. The U.S. Geological Survey is working closely with our programs and they will be evaluating water quality at various sites.

Question 8c. Does USDA expect gains in this area to occur more quickly than in the area of soil conservation?

Answer. We expect to see some positive results from our water quality programs in the short term, for a few reasons. First, our researchers have been working on water quality issues for a number of years and there are results which can be quickly implemented. Second, we already have a very capable set of institutions in place to deliver technical assistance and education. In this regard, Extension and the Soil

Conservation Service are receiving increased funding beginning in 1990 to implement these programs, including funding for staff training and development, which will be important in the effective delivery of these programs. Third, we are targeting programs to identified sites to focus on problems and projects with the highest potential for success. This is being accomplished with the full cooperation of EPA and other Federal and State agencies. Fourth, water quality is recognized as an important issue in rural America, so there is already a sincere desire to implement changes which will make improvements in the quality of water and other natural resources. Finally, in many instances State and local governments will have established specific timeframes for attainment of improvements.

Question 9. Regarding the Secretary's statement that some regulations may be necessary (see question 8), please describe under what limited circumstances you believe that regulation to protect ground water is appropriate.

Answer. Regulations for the protection of ground water should be considered where voluntary implementation of available technology is not adequate to address ground water concerns. We believe regulation, when necessary, generally should be a State or local responsibility; for example, the requirement for antiback flow devices on center-pivot irrigation systems where accidental back flushing could potentially contaminate an aquifer system. In addition, label use restrictions imposed through the pesticide registration and re-registration process could be another limited form of regulation used for ground water protection.

Question 10a. Have USDA and EPA worked together to identify lapses in their respective programs, such as the nitrate problem and the lack of protection for private wells?

Answer. There is an intensive effort underway among USDA, EPA, and USGS to coordinate their respective programs, including the identification of areas where increased efforts are needed to protect the quality of the Nation's ground water.

Question 10b. Are there plans to develop a comprehensive Federal policy, or are these not considered serious problems?

Answer. The Department of Agriculture's Water Quality Working Group is now reviewing the Department's Ground Water Policy and will review the need for comprehensive Federal policy. Consultation with EPA and USGS will continue as revisions to the Department's policy are being developed.

Secretary Yeutter, in response to a question from Chairman Leahy, commented that ". . . I am fully in accord with the view that health factors outweigh economic factors in all these decisionmaking processes." Under current law, economic concerns weigh heavily in regulatory decisions.

Question 11a. Does Secretary Yeutter favor more emphasis on health concerns?

Answer. Yes. I believe that protection of human health supersedes all other concerns.

Question 11b. Would it be appropriate to accept a standard maximum risk, irrespective of pesticide benefits? Please describe USDA's position on this issue.

Answer. USDA believes the benefits of the use of pesticides should be considered in relation to the risk associated with its use. Thus, a standard maximum risk criterion is not acceptable for decisionmaking purposes. The Department will support a concept of "negligible risk" providing the negligible risk is set at a reasonable level. Benefits may justify greater than negligible risk in some circumstances, but health remains the overriding issue.

Small water supply systems are interested in protecting the quality of their drinking water supplies.

Question 12a. Is USDA planning to assist rural communities through FmHA facility loan programs, in developing wellhead protection programs in conjunction with EPA efforts under the Safe Drinking Water Act?

Answer. FmHA, through its water and waste disposal loan and grant programs, assists rural communities in complying with the Safe Drinking Water Act which includes the State Wellhead Protection Program. The Agency provides financial assistance to rural communities for individual projects. The Agency does not anticipate being a part of developing State Wellhead Protection Plans.

Question 12b. Would such a program be effective for protecting the investment made by FmHA and communities in water supply systems?

Answer. A good wellhead protection program that is consistent with the Safe Drinking Water Act and is cost effective could help in protecting rural communities and FmHA's investment in water supply systems.

ADDITIONAL QUESTIONS FROM SENATOR KERREY

On page 9 [5] of your testimony you state that "I am today announcing that $17 million will be provided by USDA this year to assist States in improving water quality in identified watershed areas in 37 States."

Question 13a. Does the $17 million represent "new" money being directed to USDA's ground water efforts, or is this money being channeled or earmarked from existing sources?

Answer. The $17 million provided to assist States in improving water quality in identified watershed areas in 37 States is "new" money for fiscal year 1990.

Question 13b. Also, please provide specifics as to how this money will be allocated to the States. For example, which USDA agency will administer the funds? Will the money be in the form of grants, cost-share assistance, or some other type of aid?

Answer. The money will be allocated to States by the administering agencies as follows:

—The Soil Conservation Service (SCS) allocated $5.4 million directly to State SCS offices for accelerated technical assistance by SCS staff.

—The Agricultural Stabilization and Conservation Service (ASCS) will allocate $6.9 million to State ASCS offices for cost-share assistance as requested in annual plans of work.

—The Extension Service will provide $1.7 million to Cooperative State Extension offices by an advice of allowance process that requires a 50 percent match with State appropriated funds. These funds will be for accelerated education assistance to hydrologic units with an emphasis on the proper use and management of agricultural chemicals and nutrients. States will be provided an additional $2.8 million on a matching basis for developing improved program support capabilities, which include pesticide and nutrient education and training of USDA field office personnel, and the updating of Field Office Technical Guides.

—The Economic Research Service's $150,000 contribution will not be allocated to States but will be used for staff to support required economic evaluations.

In your testimony, you cite the need for—

• "Knowledge about minimum levels of chemicals that can be used while still protecting" crops and livestock;

• More knowledge "about how to use chemicals in ways that minimize any adverse effect on the environment";

• "Economical methods to recover the energy and nutrients available in livestock wastes";

• Knowledge on "how to keep chemicals and other pollutants from seeping directly into wells";

• Providing "farmers, ranchers, and other land managers with the information necessary to voluntarily adopt improved, environmentally sound management practices which do not sacrifice profitability";

• "A more complete understanding of the problems" and the "development of improved management practices in the Midwest";

• "Eight additional projects to demonstrate farmers' willingness to adopt newly developed conservation measures that more effectively manage agricultural uses of nutrients and pesticides."

I fully agree with your assessment. However, it is my understanding that these are exactly the type of needs that the Agricultural Productivity Act was intended to address and that the limited funding for the program has in fact been addressing.

Question 14a. Do you agree?

Answer. Grants awarded under the Agricultural Productivity Act authorities are investigating a number of sustainable agriculture concepts, but are not focused on the water quality objectives identified in our plans and funded through our water quality initiative.

Question 14b. Also, doesn't it make more sense to increase funding for the Agricultural Productivity Act (which the Department terms its "LISA" effort) than to allocate any new funds directed at these needs through other USDA efforts?

Answer. No. The primary goal of "LISA" is, by definition, reduction of off-farm inputs coupled with perpetuation of the farm's resource base and the farmer's economic viability. Nontraditional research performers receive support under this program. USDA's research and action program objectives have always been to conserve the resource base, to improve whole farm profitability, and to meet the needs of technical assistance and regulatory agencies at the State and local level. The distin-

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[5] See page 201 for the prepared testimony referred to by Senator Kerrey.

guishing characteristic of LISA, then, is specific attention to minimization of off-farm inputs.

The needs you list from my previous testimony apply to any system or philosophy of farming. Their satisfaction may lead to the application of fewer chemicals, thus to lower purchased inputs. The specific goal represented by that list is environmental protection irrespective of the level of inputs.

There is great diversity of climate, soils and geology in this country coupled with a broad range of farming and ranching philosophies. An approach that suits one farmer and set of conditions may not suit another. USDA must be prepared to meet the information and technical needs of many agricultural approaches. Our program has been focused on the research and technical assistance necessary to reduce agricultural contributions to water quality degradation. Working through Federal laboratories and in cooperation with the State Agricultural Experiment Stations, our programs will be providing the research to meet this overall objective given the diversity of conditions in the United States.

ADDITIONAL QUESTIONS FROM SENATOR HARKIN

Question 15. Do you think there has been an artificial distinction between what is seen as conventional agricultural research and the so-called low-input sustainable research program in USDA?

In other words, shouldn't all agricultural research take into account environmental considerations as well as productivity and profitability concerns?

Answer. USDA fully agrees that all agricultural research should recognize environmental as well as productivity and profitability concerns. USDA has a long history of dealing with such environmental concerns as flood flows and sediments from agricultural lands. Along with downstream sediment effects, the prime reason for the Department's long-standing erosion control program has been its concern for sustaining the agricultural resource base. In the context of chemicals, there is considerable divergence of opinion over what is environmentally sustainable. As in the case of erosion and sedimentation, the Department's goal is to help find the answers to that question and to help farmers manage chemical use in the best interests of both environmental and agricultural sustainability.

Question 16. Have we also seen an artificial distinction between what has been called conventional agriculture and what has been referred to as alternative or sustainable agriculture? I know a lot of farmers are adopting many of these practices and technologies that reduce environmental risks, yet they don't think of themselves necessarily as alternative agriculture or sustainable agriculture farmers.

So don't we have to be careful not to let labels get in the way of careful analysis?

Answer. Right now, labels and the different meanings people attach to them can make it difficult to communicate effectively about ways to reduce environmental risks while ensuring the productivity and profitability of farming. I see that as a temporary thing. The real question is: What combinations of farming practices will different farmers find to be the most environmentally beneficial over the long run? While some of the current interest in labels reveals differences in opinion about the relative importance of those goals and the ways to pursue them, it appears as though a compromise is evolving.

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF CONGRESSIONAL
AND LEGISLATIVE AFFAIRS

MAR 29 1990

The Honorable Patrick J. Leahy
Chairman
Committee on Agriculture, Nutrition,
and Forestry
U.S. Senate
Washington, D.C. 20460

Dear Mr. Chairman:

Thank you for the opportunity to clarify some of the issues discussed at the January 25, 1990, hearing on agrichemicals in ground water. I have enclosed our responses to your questions, as well as to those of Senator Lugar and Senator Harkin, that were asked in your February 8, 1990 letter.

The Office of Management and Budget has advised that there are no objections to the presentation of these views from the standpoint of the President's program.

We appreciate the opportunity to provide you with this information. If we can provide you with additional information, please do not hesitate contacting us.

Sincerely,

Charles M. Hassett
Acting Director
Legislative Analysis Division

Enclosure

Printed on Recycled Paper

U.S. ENVIRONMENTAL PROTECTION AGENCY'S
ANSWERS TO QUESTIONS FROM SENATOR PATRICK LEAHY
FROM JANUARY 25, 1990 HEARING ON AGRICHEMICALS IN GROUND WATER

QUESTION 1: **According to the National Research Council Report, "Regulating Pesticides in Food: the Delaney Paradox," EPA currently applies the Delaney Clause prohibition against substances that "cause cancer in man or animal" to new pesticides if they leave residues in processed foods and will not register such a pesticide for food use (NRC Report, Appendix "C"). Is this correct? If so, are there any circumstances under the which EPA will permit a new food use for a carcinogenic pesticide leaving residues in processed foods? Please identify any new pesticides or new food use registrations for existing pesticides that have been denied by the Agency because of application of the Delaney Clause.**

ANSWER: The NRC report is essentially correct in its description of EPA policy on the Delaney Clause as applied to new pesticides. The Agency's policies for applying the Delaney Clause are fully discussed in its October 19, 1988, Federal Register Notice (Vol. 3-53, no. 202), entitled, "Regulation of Pesticides in Food: Addressing the Delaney Paradox". A copy of that Notice is attached for your reference (Attachment 1). As explained in that Notice, the Delaney Clause does not apply to all pesticide residues in processed foods.

The Delaney Clause appears in section 409 of the Federal Food, Drug and Cosmetic Act (FFDCA). Under section 409 of the FFDCA, a food additive regulation (often called a 409 tolerance) must be set for pesticide residues in processed food or feed (1) if a pesticide is added directly to the food or feed during or after processing, or (2) if the pesticide residue present in the raw agricultural commodity concentrates as a result of processing. Thus, the Clause does not apply to all processed foods and feeds, but only to those which have processed forms where one of the above two criteria are met. EPA currently applies the Delaney Clause prohibition whenever it considers establishing a food additive regulation for a pesticide which has shown evidence of carcinogenicity.

As explained in Part II C and D of the Notice, "if the pesticide is to be used on a...raw agricultural commodity...[and] if concentration of the raw-commodity residues does not occur during processing, and if the pesticide is not added during or after processing, no food additive regulation is needed.

If the pesticide use passes the risk/benefit test under FIFRA and FFDCA section 408, a registration can be granted."

While the Agency has applied the Delaney Clause strictly to new pesticides and new uses, in the normal course of business, the Agency does not formally deny, but rather does not grant tolerances which do not meet the FFDCA criteria. If the Agency has a petition for a tolerance for a use which it knows will require a 409 tolerance, and the Agency also knows there is evidence of carcinogenicity, registrants are normally strongly discouraged from pursuing the use. The Agency does not keep records of the potential use applications which are thus aborted. There are, however a few recent cases where 409 tolerances posing low carcinogenic risks have been an issue. Some examples are the applications for the use of Aliette on hops, Savey on apples, and Amitraz on citrus fruits; to date, EPA has not granted 409 tolerances for these uses.

QUESTION 2: **Does the Agency apply the Delaney Clause to pesticides that, after their initial registration of use on food, are subsequently determined to be carcinogens and that may leave residues in processed foods? For example, has EPA ever revoked a tolerance or taken any other regulatory action under the Delaney Clause to restrict the use of a food use pesticide in processed foods that has been determined to be a carcinogen after its initial food use registration? If so, please identify any such "old pesticide" to which the Delaney Clause has been applied, when this occurred, and the nature of the regulatory action.**

ANSWER: As explained in its October 1988 Federal Register notice, the Agency has not specifically taken action based on the Delaney Clause to revoke established food additive regulations. The Agency has, however, taken action under FIFRA to cancel registrations for pesticide uses because of carcinogenic risks, or has either cancelled certain uses or required modifications in use patterns to reduce exposure and the associated tolerances and food additive regulations for the cancelled uses have been or are in the process of being revoked. During the past 5 years or so, EPA has revoked tolerances for a group of pesticides cancelled some time ago for which tolerances had not yet been revoked. These include DDT/TDE, BHC, aldrin/dieldrin, DBCP, strobane, schradan, mirex, chlordane, heptachlor, endrin, and chlorobenzilate.

The attached list (Attachment 2) gives some examples of recent 409 tolerance revocations. In addition, remaining tolerances are in the process of being revoked for daminozide, chlordimeform, and zineb. Finally, the Agency is reassessing tolerances for all old pesticides through the Special Review process and in conjunction with the reregistration process.

QUESTION 3: **Does EPA now follow a dual standard whereby the Delaney Clause is held to bar new food use pesticides that are carcinogens but not applied to "old" pesticides registered for food use that are determined to be carcinogenic after their initial registration? If so, how long has the Agency followed this practice? What is its scientific, policy; and legal rationale?**

ANSWER: As explained in EPA's October 1988, Federal Register notice, the two laws under which EPA has regulated pesticides since the Agency's inception, present two different standards. The difficulties the Agency has experienced in trying to carry out these two laws have resulted in the "dual standard" to which you refer. The Notice describes the Agency's efforts to reconcile the two laws. The Agency's present policy is not to apply different standards to old and new pesticides. The various scientific, policy, and legal considerations involved are discussed in detail in the Notice.

QUESTION 4: **In the October 19, 1988 Federal Register (Vol. 3-53, no. 202) notice entitled, "Regulation of Pesticides in Food: Addressing the Delaney Paradox," the Agency identified certain pesticides that are potential carcinogens for which tolerances either exist or are required under Section 409 of the Food, Drug and Cosmetic Act. What is the status of establishing 409 tolerances identified in this matrix as being "required"? Isn't food containing residues of these chemicals, but without such a tolerance, adulterated under the Act? If not, what is the scientific, policy, and legal rationale?**

ANSWER: Appendix B of the Federal Register Notice contains the list of potential carcinogens to which you refer. Before answering this question, the notations in Appendix B should be clarified. Appendix B was intended to elaborate on information provided in the text of the Notice. The Notice explains that, in a number of cases, pesticides registered for food uses in the past were not required to have 409 tolerances because residues were not known to concentrate during processing. Since then, new data show that the residues do concentrate with one or more types of processing. In other cases, the Agency has asked for additional processing studies to determine whether or not a 409 tolerance should be required. The notations in Appendix B represent the Agency's best effort, given the information available, to indicate which pesticides appear to fall into that category. The entries in Appendix B do not, therefore, represent final determinations about the need for 409 tolerances.

All of these pesticides are subject to reregistration, and the Agency is conducting tolerance reassessments in conjunction with reregistration under FIFRA. In many cases, the Agency has already notified registrants to develop additional data necessary for dietary risk assessments. As additional data needs are identified through the reregistration process, they will also be required. Full tolerance reassessment will occur in Phase 5. A summary table of the FIFRA '88 reregistration schedule is attached (Attachment 3).

Any food containing residues of these, or any other pesticides, in excess of the established tolerance (under FFDCA section 408) would be considered to be

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adulterated. It is likely, however, that violative residues do not often occur. Since residues in the raw agricultural commodity are typically lower than the tolerance level, even if they concentrate in processing, the level in the processed food may not exceed the 408 tolerance.

QUESTION 5: **For either "old" or "new" pesticides, does EPA apply the Delaney Clause if a food use inert ingredient is a carcinogen? If so, please identify when this has occurred.**

ANSWER: The Agency has not applied the Delaney Clause to inert ingredients because inert ingredients have not been subject to FFDCA section 409.

Historically, the Agency has "cleared" inert ingredients for use in pesticides on relatively little data (compared to active ingredients), and has issued section 408 tolerance exemptions. If a 408 tolerance exemption exists, residues will never concentrate to a level higher than that allowed in the raw agricultural commodity, and thus section 409 does not apply.

The Agency has, however, reevaluated its policy on inert ingredients, and on April 22, 1987, the Agency published its Inert Ingredients Strategy in the Federal Register. A copy of the Strategy and an updated list, dated October 1989,is enclosed for your reference (Attachment 4). EPA has begun the process of gathering more data on inert ingredients and eliminating those of toxicological concern. As we evaluate those data, tolerances will be established when appropriate.

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QUESTION 6: **What pesticides found in processed foods cause cancer in man or animals?**

ANSWER: Attached is a list of food use pesticides for which the Agency has seen evidence of carcinogenicity in laboratory animals (Attachment 5). Those which have 409 tolerances for food or animal feed are indicated on the list.

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QUESTION 7: **Please submit all the information EPA has compiled on chemical and nonchemical alternative pest control methods for all B2 carcinogens used on California food use crops.**

ANSWER: Attachment 5 includes the Group designation for each food use pesticide which the Agency has classified in accordance with EPA's Cancer Assessment Guidelines. Any of these pesticides could be used on food crops in California.

The Agency does not routinely compile lists of alternatives to pesticides. EPA considers availability of alternatives in two types of actions--applications for emergency exemption under Section 18, and in the risk/benefit analyses associated with potential cancellation actions. When farmers need information about available alternatives for specific pesticide uses, they are usually referred to the USDA, Cooperative Extension Service, or their state department of agriculture, because nonchemical alternative pest control methods are usually highly specific to local pest control needs, cropping patterns, weather and soil conditions, and similar local variables, in addition to the general question of what products are registered for the particular use.

In regard to alternatives in California, it is possible that the California Department of Food and Agriculture may have done an analysis of alternatives to the B2 carcinogens for the typical uses in that state in connection with the food safety ballot initiative in that State.

QUESTION 8: **Do you consider point sources or nonpoint sources of nitrate ground water contamination to be the greater problem? Is the national survey for pesticides providing this information?**

ANSWER: Generally, point and nonpoint sources of nitrate ground-water contamination pose different concerns. Point sources can result in high, but relatively localized contamination levels, whereas non-point sources can result in widespread, but relatively low contamination levels. Given the many potential sources of contamination, including natural levels in soils, fertilizers applied to the land, septic tanks used by households and businesses, animal waste piles, and atmospheric deposition, it is very difficult to determine which sources are predominant for ground-water contamination and which are less so. Therefore, it is difficult to give a definitive answer to this question. Indeed, even an extensive study of nitrates completed in 1985 by the U.S. Geological Survey concluded that it was not possible to rank the sources of ground-water contamination from nitrates.

There are several items in the questionnaire from EPA's NPS which will assist EPA to learn more about the relative importance of various sources of nitrates in ground water. However, the Survey may not provide sufficient information to distinguish clearly the relative importance of point and nonpoint sources.

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QUESTION 9: **Administrator Reilly stated that EPA is reviewing the EPA authorities related to nitrate and ground water contamination before seeking additional legislation. When is this review expected to be complete? What authorities are considered options for controlling nitrate contamination?**

ANSWER: Through EPA's Ground-Water Task Force, the Agency is reviewing all its options for increasing the protection of ground water from all contamination sources including sources of nitrates. As reported at the hearing, the Ground-Water Task Force has recently released a Statement of Ground Water Principles and a State/Federal Relationship Options paper for comment. These papers present options for EPA's role in assisting states to develop comprehensive state ground-water protection programs, which would address all sources of ground-water contamination. The Task Force will complete its work this year.

Addressing the serious problem of nitrates in ground water is complex because such contamination is caused by a wide variety of sources. To address this complex problem, EPA currently uses numerous statutory authorities which would likely continue to be the primary policy vehicles.

For example, EPA currently has authority under the Safe Drinking Water Act to address risk from nitrates present in public water supplies. EPA has set and continues to enforce a standard of 10 ppm for nitrates. To further address nitrates, EPA proposed last May to retain the current Maximum Contaminant Level (MCL) of 10 ppm for nitrate, and also proposed a new MCL for nitrites (which are more toxic) of 1 ppm, and a new MCL for nitrate/nitrite combined of 10 ppm. We expect to promulgate final rules in December 1990 and new standards will become effective 18 months after promulgation of the final rules.

EPA is also conducting a "National Survey of Pesticides and Nitrates in Drinking Water Wells" (NPS) in a joint effort of EPA's Office of Drinking Water and the Office of Pesticides Programs. NPS will estimate pesticide and nitrate concentration levels and frequency in domestic and community water wells, and will investigate how pesticide and nitrate concentrations in wells are associated with

pesticide use and ground-water vulnerability near those wells.

We are also addressing the problem of nitrates in ground water by providing financial assistance to States and supporting technical assistance activities and scientific research. First, EPA's major role in this effort is to support the building of State capabilities to ensure on-going comprehensive state ground water protection programs and the establishment of Wellhead Protection Programs under Section 1428 of the Safe Drinking Water Act. Second, we are increasing our assistance to States to reduce nonpoint source pollution, including nitrates, through the Clean Water Act (CWA)Section 319 Non-Point Source Program which received funding for FY 1990 of $40 million. The Agency is supporting a number of State projects to implement "best management practices" under this CWA program for nutrients. Third, through the President's Water Quality Initiative, EPA is working with USDA in their major research effort to reduce the likelihood of contamination and their efforts to provide technical assistance to farmers. Fourth, EPA is working closely with USDA and DOI to develop the Administration's 1990 Farm Bill proposals. And fifth, EPA has formed a staff-level working group on nitrates in water to explore the possibility of sponsoring a conference to identify possible additional remedies for this problem.

QUESTION 10: Administrator Reilly stated that EPA is currently using some authorities under various statutes to address the nitrate problem. The Administrator used the drinking water standard for nitrates as an example. How well is the nitrate standard enforced?

a. How many violations of the standard have been reported by public water systems?

ANSWER: During the 1987-89 period, 373 community public water systems reported violations of the nitrate Maximum Contaminant Level (MCL).

b. How many systems have asked for and received variances to exceed the nitrate standard?

ANSWER: EPA requires that the States report the status of all variances and exemptions issued. No State has reported to EPA that a variance to the nitrate standard has been issued over the last three years.

c. How many people does EPA estimate are consuming water from public systems with nitrates above 10 ppm? 20 ppm? How many from private wells?

ANSWER: EPA estimates that approximately 11,500 people are served by 32 community water systems with nitrate over 20 ppm and 950,700 people are served by 341 community water systems with nitrate between 10 and 20 ppm. In all, EPA estimates that approximately 962,000 people receive water from 373 community water systems with nitrate above 10 ppm.

However, we know from our contacts with States that many public water supplies exceeding the nitrate standard take steps (such as provision of bottled water) to ensure that infants at risk are not exposed to the contaminated water.

"The National Survey of Pesticides and Nitrates in Drinking Water Wells" has sampled both community public water system wells and private wells. Preliminary results of the survey will not be available until the fall of 1990. At that time, we will have the information to more fully respond to your question concerning population exposed by private and community

water supply wells. Anecdotal information from various States indicates that nitrate contamination in private wells probably poses a much greater concern than in public wells because they are more frequently contaminated than public water supplies.

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QUESTION 11: **Under EPA's new ground water principles, how is the safety of private water supplies addressed?**

ANSWER: The Statement of Ground-Water Principles commits the Agency to the goal of "prevent[ing] adverse effects to human health and the environment and to protect the environmental integrity of the nation's ground-water resources." One of the prevention objectives consistent with this goal is to "ensure that the nation's currently used and reasonably expected drinking water supplies, both public and private (emphasis added), do not present adverse health risks and are preserved for present and future generations."

It is also clear from the Principles that the Agency believes that the States have a critical role in ground water protection. Thus, to increase protection of the ground-water resource, the Agency believes that States must move toward development and implementation of Comprehensive State Protection Programs.

Because these State Programs will be comprehensive, EPA believes that States should have the primary responsibility for protecting private water supplies. States would protect these private supplies by identifying sources of contamination, and developing comprehensive pollution prevention and source control programs to ensure the safety of these supplies. These State programs would work in concert with the Wellhead Protection Program and the Public Water Systems Program under the Safe Drinking Water Act, and with State Pesticide Management Plans under the Federal Insecticide, Fungicide and Rodenticide Act. Consequently, as vehicles for these actions, States would use both federally-directed regulatory and non-regulatory programs as well as state legislative mandates in a cohesive and integrated manner to address the wide variety of potential sources of ground-water contamination. Innovative state requirements include requiring testing of wells as a condition of a real estate transfer to alert buyers about contamination and possibly require sellers to provide remediation.

QUESTION 12: **How much of a reduction in agricultural chemical use is necessary to meet the EPA's new ground water goal and the goal of the Clean Water Act? What efforts are underway to further define the relationship between farming practices and the water quality goals?**

ANSWER: While reductions in loadings are certainly desirable, it is not possible to quantify reductions nationally based on the qualitative goal recently stated in the ground water principles and the goal of the Clean Water Act. This is a question that can best be answered locally, since the answer will vary by site and by chemical. To protect ground water some states mandate area-wide or state-wide reductions in chemical use. Iowa, for example, has recently announced an administrative rule that mandates reductions of atrazine use from 4 to 3 lbs. maximum/acre/year statewide, and from 4 to 1.5 lbs. maximum/acre/year in ground water areas vulnerable to contamination. Such differential source management will be necessary for other agrichemicals and for other areas of the country.

Current EPA efforts that address the relationship between farming practices and water quality goals include:

- The National Pesticide Survey has gathered data which may shed light on the relationship of various farming practices to ground water quality,
- EPA's proposed Pesticide in Ground Water Strategy could result in a pesticide's use being reduced or cancelled should unreasonable ground water risks be identified and not otherwise mitigated through other risk reduction measures,
- encouraging States to develop pesticide management plans to protect ground water by providing financial support to State agencies to develop these plans,
- research on practices to reduce the potential for contamination and provide technical assistance to farmers through the President's Water Quality Initiative,

- technical assistance and support to States in the development of their ground water protection and wellhead protection programs

- support for Clean Water Act Section 319 NonPoint Source Programs,

- participation in USDA's Interagency Working Group on the 1990 Farm Bill,

- preparation of a restricted use rule, which EPA will propose this year, to restrict the use to trained applicators of pesticide products with the potential to contaminate ground water.

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QUESTION 13: **What funds are dedicated to pesticide and nitrate pollution prevention? How much funding is dedicated to research on alternative chemical management? How are these efforts coordinated with USDA research?**

ANSWER: For FY 1990, EPA provided States with $7.0 million in grants for building state institutional and technical capacity to protect ground water from pesticide contamination. EPA also provided $2.5 million in grants for state wellhead protection program development, and $6.7 million in grants under the Section 106 of the Clean Water Act to support the development and implementation of the States' Ground Water Protection Programs. These programs should include both wellhead protection and pesticides-in-ground-water activities. The Agency is also partially funding the extension to farmers of a nitrogen soil test which has been proven to reduce nitrogen fertilizer use by up to 40% in Iowa. EPA and the Chesapeake Bay Foundation are using this late-spring soil test in Pennsylvania. Through education and additional research, fertilizer use has been reduced by one-half in that State. EPA also plans to fund research on the economic efficiency of fertilizer application to analyze the potential to reduce rates of application in several, mainly Western States. All of these studies are being coordinated with USDA. For FY 1991, the Agency will provide states with additional funding for these activities.

For FY 1991, the Agency also plans to spend $2-3 million on support for pollution prevention research. Some of the pollution prevention projects include the Demonstration of Emerging Area-Source Options For Volatile Organics; the Chesapeake Bay Pesticide Index and Registry; Prevention of Ground Water Contamination from Pesticides - Information Systems for State Use; Reduction in Pesticide Application through Bioregulation; and the Sustainable Agriculture Initiative, entitled "Technology Transfer for Weed Management Systems to Reduce Corn Herbicide Use," which is being undertaken in conjunction with the USDA. All of these pollution prevention projects are being coordinated with USDA.

QUESTION 14: **Administrator Reilly stated that the EPA strategy for pesticides in ground water emphasizes pollution prevention. How does the strategy reconcile the chemical-specific risk/benefit framework of FIFRA with the pollution prevention concept -- which calls for chemical use reductions across the board? Does the strategy have pollution prevention as a goal? Does EPA have adequate authority to make pollution prevention the centerpiece of the strategy?**

ANSWER: We believe that the proposed Strategy's use of the FIFRA risk/benefit framework is in concert with the Agency's pollution prevention concept. Under the FIFRA statute, EPA must recognize the benefits, as well as the risks, of pesticide use in making regulatory decisions. This requirement explicitly recognizes that some pesticides may pose the potential for risk of adverse effects on human health and the environment, but that some level of such risks may be reasonable if the benefits of a pesticide's use are considered more significant. The Agency will use FIFRA to achieve the Agency-wide goal of protecting the ground water resource in such a way that unreasonable adverse effects on human health and the environment are avoided. At the same time, the Agency will continue to encourage the development and adoption of other policies and practices that will prevent unreasonable pesticide contamination of ground water.

The Agency's proposed Strategy for dealing with ground water contamination by pesticides is consistent with the Agency's concept of pollution prevention; the focus is on the prevention of contamination in ground water rather than clean up once contamination has occurred. Under the EPA proposed Strategy, efforts to manage a pesticide's use should begin with early indications of its potential to contaminate ground water. The Agency has several means under FIFRA for controlling risks to ground water, as described below.

Before a pesticide is allowed on the market, manufacturers must submit extensive data to EPA, including environmental fate data which are used to indicate, among other things, whether a pesticide poses a threat to ground water or surface water. Based on such data, the Agency may require label directions and precautions to inform the applicator that this pesticide must be used in a manner consistent with the label statements to prevent

contaminating water supplies. Such data requirements and associated label requirements can also be imposed on older pesticides undergoing re-registration. Complementing the current data requirements on environmental fate, EPA will also propose this year a Ground Water Restricted-Use Rule which will facilitate placing ground water leachers into the "restricted use" classification when the Agency has information about 1) its physical and chemical propensity to leach, or 2) actual levels detected in ground water. In addition, the Agency may limit the use pattern of a pesticide, or may cancel some or all uses when evidence arises that shows the pesticide may pose unreasonable risk of contaminating surface or ground water.

In order to tailor preventive management measures (including well-set backs, changes in application methods, use of integrated pest management, and education) to local conditions, many factors must be considered. These include, for example, the physical and chemical properties of the pesticide, how and where the pesticide may be used, evaluation of ground water vulnerability in usage areas, and monitoring data, or the need for such data. Using EPA grant funding described above, States should be working now to build state capacity to evaluate such factors and develop state management plans as envisioned in EPA's strategy.

FIFRA regulatory efforts and other pollution prevention activities can be highly complementary to one another. For example, changes in agricultural policies which reduce incentives to use potentially harmful (but economically important) pesticides may significantly lessen the risks of ground water contamination, and thus may reduce the need for regulatory actions under FIFRA. Conversely, FIFRA regulatory actions, which include detailed risk/benefit analyses, can help identify and prioritize needs for broader prevention approaches. Pesticides that pose significant risks are highlighted under the FIFRA process. High risk pesticides, even if associated with high benefits, should receive priority attention for broader prevention measures aimed at developing alternative products and practices with less associated risks. This process acts as an incentive for the development of low risk alternatives; "old" pesticide registrations will be reconsidered in light of practical, low risk alternatives that can be put into use to replace the benefits provided by

currently registered but relatively high risk pesticides.

QUESTION 15: **Given the potential for farm-by-farm variations in hydrogeology, how does EPA justify county-level determinations on registration, as in the aldicarb proposal? Does EPA have a sufficient technical basis for fine-tuning regulation of leaching pesticides at the sub-county level? Can EPA assure adequate enforcement of highly localized regulations?**

ANSWER: In the aldicarb proposed position, EPA solicited comment on two approaches - a county-level, and a broader Heath region approach; commenters generally favored the county-level approach. It should be noted that the aldicarb decision is not final.

In general terms, EPA believes that in identifying areas likely to need state pesticide management plans to protect ground water, resolution at the county level offers the smallest geographically-defined area that the Agency can evaluate given available resources. Although EPA has a considerable amount of information, much of which is housed in the Pesticides in Ground Water Data Base, about ground water contamination by pesticides at the sub-county-level, these data are limited in various ways, and would not generally be adequate as the basis for regulatory decisions. We believe States, not EPA, are in the best position to evaluate local variability in hydrogeology, pesticide use, and cropping patterns. Taking this local information, States are better able to determine the areas within a county that are more or less vulnerable to ground-water contamination and apply the appropriate management measures.

In relation to enforcement, EPA's criteria for acceptable state management plans will include an enforcement plan, and evidence of adequate resource commitments and legal authority to carry it out. Other criteria will include a plan for assessing ground water vulnerability, gathering crop and pesticide usage data, monitoring, technical resource commitment, mechanisms to relay information to pesticide users, public participation in plan development, and other requirements. EPA will exercise oversight of the state plans to ensure that ground water is protected from unreasonable contamination.

QUESTION 16: **Does EPA plan to use Section 319 funding for ground water assessments? Do state Section 319 reports provide sufficient targeting/assessment information for ground water efforts, particularly USDA's water quality program?**

ANSWER: In our guidance for issuing the first round of Section 319 grants in FY 1990, we have asked each state to devote at least 10% of its grant work program to ground-water protection from nonpoint source pollution, in particular to conduct ground water assessments. Section 319 assessments are primarily targeted at surface waters that are polluted at levels that exceed water quality goals. However, given the importance of ground water and the direction stated in 319, we have given priority to ground-water protection activities as well.

Due to local specificity and site vulnerability of ground water protection needs, considerable data will be needed for targeting and prioritizing protection efforts including USDA water quality efforts. Such information is being provided by, for example, the USGS through their general assessment efforts, the Soil Conservation Service regarding soil types, state geological and environmental agencies as well as by ground water assessment activities funded by EPA-supported state ground water protection strategies and 319-related activities.

QUESTION 17: **Small water supply systems are interested in protecting the quality of their drinking water supplies. For example, the Northeast Rural Water Association operates a rural water circuit rider technical assistance program to help small systems protect the quality of their drinking water and comply with Safe Drinking Water standards. How is EPA supporting efforts to protect source water and develop wellhead protection plans in rural areas? Will EPA seek financing agreement with the USDA to**

incorporate wellhead protection and technical assistance into USDA rural development programs?

ANSWER: First, EPA supports state wellhead protection (WHP) program development (required under Section 1428 of the Safe Drinking Water Act) through both financial and technical assistance, and have $2.5 million for the states for WHP in our FY 1990 budget. Thirty states have submitted programs for EPA approval. We are reviewing these now and will start approving programs soon. EPA is also providing substantial technical assistance to state and local officials and technical staff on the protection of drinking water supplies through wellhead protection techniques.

Second, EPA's Office of Ground-Water Protection is working with EPA's Office of Drinking Water (ODW) to integrate WHP with ODW's outreach program to water suppliers and to coordinate vulnerability assessment guidance with WHP guidance.

Third, EPA is currently negotiating a Memorandum of Understanding (MOU) between the Agency and USDA's Cooperative Extension Service. A key aspect of the MOU calls for EPA to develop training and educational materials on environmental protection which would be made available to rural communities and citizens through the Extension's extensive network. The materials will include an emphasis on WHP.

Fourth, EPA is exploring with USDA two additional innovative approaches with respect to the WHP program:

(a) Incorporation into the Conservation Reserve Program of cropland within state wellhead protection areas approved under Section 1423 of SDWA.

(b) Incorporation of wellhead protection as a criterion for community development grants and loans by USDA's Farmers Home Administration for the construction of public water supplies in rural communities.

Fifth, EPA's Office of Drinking Water has provided grants to the National Rural Water Association to fund technical assistance and training programs in rural areas to assist in compliance with Safe Drinking Water Act requirements.

QUESTION 18: **For all pesticides found in ground water, does EPA have the following information on parent substances and degradates:**

a. ADIs;
b. cancer potency factors;
c. one-in-a-million inhalation and ingestion risk level concentrations;
d. whether they are mutagens, neurotoxins or teratogens, and their regulatory status;
e. a description and references for performing analytical analyses, and a record of which compounds are monitored on a routine basis in drinking water sources;
f. the mechanism of toxic action;
g. interactive effects toxicology data;
h. a list of inert ingredients of toxicological concern that are associated with pesticides found in ground water.

Please explain EPA's policy for providing this information to the public or to state governments. Please provide the name of a contact person at EPA responsible for providing this information to the public or state governments.

ANSWER: Question 18 refers to the availability of health information, analytical methods and monitoring records for all pesticides in ground water including data on degradation products.

EPA's Office of Drinking Water (ODW) developed Health Advisories for approximately 70 pesticides that are actual or potential contaminants of ground water. Standards for at least 33 of these chemicals are under development at the present time. Analytical methods were developed to monitor these pesticides in sources of drinking water.

Among these 70 chemicals there are at least 16 neurotoxins (these chemicals are usually cholinesterase inhibitors: organophosphates and carbamates), at least two teratogens, 12 Group B_2 carcinogens and eight Group C chemicals. All of the chemicals in Groups B_2 or C have mutagenic activity in one or more of the mutagenicity tests. The registration of one of the teratogens, dinoseb, was recently cancelled, as well as some of the B_2 chemicals, i.e. chlordane, heptachlor, toxaphene; others are under Special Review in the Office of Pesticide Programs (OPP) and the majority have

already been through the registration standard process.

For the purpose of providing some manageable scope to this question, we agreed with Committee staff to focus on nine (9) pesticides that have been found in ground water at least 3 times. These chemicals are: aldicarb, alachlor, atrazine, carbofuran, cyanazine, EDB, metolachlor, metribuzin, and simazine.

For all these chemicals the Agency has in the past evaluated the existing data base for the purpose of issuing a registration standard; the Agency also has developed a Drinking Water Health Advisory for each, describing the short term, long term, and chronic toxicity concerns (including cancer) for these chemicals with respect to the potential contamination of ground water. In the registration standard, data gaps were identified for information considered essential for fully evaluating the health effects of these chemicals.

The registration standards and the Health Advisories for these chemicals describe the ADI (now called reference dose, RfD); the cancer potency factors, if applicable (e.g., on this list, alachlor and EDB are classified as B2 carcinogens, atrazine, simazine, and metolachlor as C (possible) carcinogens); the one-in-a-million ingestion risk, if applicable for estimating carcinogenic risks; and an evaluation of their mutagenic, neurotoxic, and teratogenic properties, as well as their regulatory status. On this list, most EDB uses have been cancelled, except limited fumigation of certain commodities for export; the others are registered for use, but aldicarb and carbofuran are in Special Review, and atrazine is being considered for Special Review. Inhalation risks are calculated only if that is considered to be a significant route of exposure for the pesticide in question (on this list EDB, a fumigant, has inhalation risk calculations). In short, the publicly available registration standards, health advisories, and for some chemicals, Special Review position documents, answer sections a,b,c,and d of the above question.

With respect to section (e), the chemicals which are routinely analyzed in drinking water are those for which the Office of Drinking Water has established a Maximum Contaminant Level (none of the 9 pesticides listed here); However, EPA's

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National Pesticide Survey is sampling for 126 pesticides and metabolites, including all of the 9 listed pesticides.

For section (f), it must be said that for most chemicals, not only pesticides, the mechanisms of toxic action are not well understood. The cholinesterase-inhibiting pesticides are the exception; at high doses these compounds are known to interfere with neurological transmissions, and thus affect respiratory and cardiac functions. Regarding section (g), the interactive toxic effects of only a very few chemicals are generally known, mostly limited to human drugs where such interactions have been empirically established. Limited data on synergistic effects are available for some of the cholinesterase-inhibiting pesticides.With regard to section (h) of the question, pesticide ingredients, including the nine listed above, may be formulated with many different inert ingredients. The Agency has not compiled a list of inert ingredients associated with pesticides that have been found in ground water.

The Agency has provided all state agencies of agriculture, environment, and health with "Health Advisory Summaries" for the pesticides included in the "National Survey of Pesticides and Nitrates in Drinking Water Wells." The summaries provide the health effects information described above. These summaries, along with the more detailed individual health advisories, are also available to the general public through the Safe Drinking Water Hotline at 1-800-426-4791, or locally, at 382-5533. As noted above, many other EPA documents detailing the health and environmental characteristics and regulatory status of individual pesticides are made available to the public upon request, and typically include a specific EPA staff person as the contact for further information.

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QUESTION 19: **Administrator Reilly stated that ground water should be protected through a variety of means -- pollution prevention, source and siting controls, etc. Both the Administrator and Secretary Yeutter agreed that some regulation may be necessary to protect ground water. Under what circumstances and in what manner should regulatory authority be used to protect ground water from agricultural chemicals?**

ANSWER: Federal regulatory authority over pesticides already exists under FIFRA. EPA is evaluating new and already registered pesticides for their impact on ground-water contamination, and will propose this year a restricted use rule for pesticides that will entail characterizing pesticides according to their actual or potential contribution to ground water problems. The Agency's Pesticides in Ground Water Strategy emphasizes the key role of states in the management of pesticide use. The Strategy recognizes both the site variability in hydrology, soil, climate, and agricultural practices and the predominant authority of local governments in land use control. In some instances states and local governments will undoubtedly adopt further regulation of agricultural chemicals in developing and implementing state pesticide management plans, ground water protection programs, and NPS management plans.

Also, under the Safe Drinking Water Act's Public Water Systems Program, EPA currently regulates six pesticides. Revised regulations will be proposed for 10 pesticides in June of this year and final regulations will be promulgated for 18 pesticides in December of this year. The Agency also has Health Advisories for more than 60 pesticides which are being used by all levels of government and are available to the private sector.

However, EPA is reviewing its current regulatory authorities for addressing a host of environmental problems and may seek additional authorities if the review finds that they are necessary. Finally, we want to note that at all levels of government, nonregulatory measures such as research, education, and technical assistance on best management practices for ground-water protection should be used along with regulatory authority (if needed) to manage agrichemicals to protect valuable ground-water resources.

QUESTIONS FROM SENATOR LUGAR

QUESTION 1: **Data submitted under reregistration should supply fairly good information about the toxic and environmental effects of a pesticide.**

A. In requiring data has EPA made any special considerations related to pesticides which may have a greater potential to leach?

ANSWER: In 1984, EPA issued a Data Call-in Notice on 141 currently registered pesticides that, on the basis of chemical structure, were suspected of having the potential to leach into ground water. The purpose of the call-in was to ensure that the Agency had data available during the reregistration process to make a ground-water exposure assessment. Based on the results of these laboratory and field data plus the findings of a pesticidal chemical in ground water, EPA has required risk reduction measures to protect ground water from a number of these pesticides.

In addition to the special Data Call-in, during registration and reregistration, environmental fate and leaching data are required on a tiered basis, as follows. For all pesticides that will be used outdoors, basic laboratory and field studies are required to demonstrate a chemical's characteristics that influence its dissipation in the environment. If the pesticide has been detected in ground water, these data are given priority in the review schedule. If the pesticide exhibits a potential to leach, in comparing its data to that of known leachers or through data taken from actual field dissipation studies, more extensive leaching potential studies may be required. With new pesticides or new use patterns, small-scale prospective ground-water monitoring studies may be required. If the chemical has a history of use, retrospective ground water monitoring either on a small scale (field or area) or a large scale (county, state, region) may be required. To date, EPA has required 15 small-scale prospective

studies, 10 small-scale retrospective studies, and one (1) large-scale retrospective study (alachlor).

B. How will EPA use reregistration data to prevent ground water contamination? This question is related in part to the notion of whether or not EPA should take specific action on a pesticide prior to making a complete reregistration decision.

ANSWER: The EPA will use reregistration data to help prevent or mitigate ground-water contamination. When the complete data base supporting each currently registered pesticide is reviewed under the reregistration process, the Agency will be able to better assess the potential of the individual chemicals to leach into ground water. Based on the results of the data, there are a number of regulatory decisions available to EPA including restricted-use classification, ground-water advisories, labeling changes on the application rates, timing, and number of applications per year, and/or the requirement of state pesticide management plans.

In some cases, the Agency will take action on a chemical before the reregistration data-base for that pesticide is complete. For example, under the ground water restricted-use rule, the Agency will place certain pesticides into the "restricted-use" classification depending on the pesticide's physical and chemical propensity to leach or on the basis of actual detection of the pesticide in ground water. In order to apply a restricted-use pesticide, pesticide applicators are required to attend certification courses in their state. Furthermore, if the data provided to EPA indicate risks of unreasonable adverse effects, the Agency may initiate cancellation or even suspension actions if necessary to prevent adverse effects to people and the environment.

QUESTION 2: **EPA seems to vest considerable interest in the "restricted-use" classification as part of the overall ground water strategy. While this is not necessarily a bad idea, it implicitly relies on State-administered training and certification programs. Present knowledge indicates there is considerable variability nationwide with respect to the implementation of these programs. In addition, the restricted-use strategy may defeat the pollution prevention approach by "waiting" for a pesticide to be discovered as a problem before any users receive appropriate training.**

A. What is your feeling about the need to upgrade and make more consistent pesticide training and certification programs?

ANSWER: Designated State Lead Agencies certify applicators with State Cooperative Extension Services providing training. EPA assists State Lead Agencies in the development of certification plans. EPA publishes a notice in the Federal Register permitting public review and comment of proposed certification plans. These certification plans once approved are periodically updated and any significant changes are again published in the Federal Register and public comment is solicited. For example, EPA will soon be publishing an approval notice of amendments to Indiana's certification plan. In general, the certification programs meet our current requirements and when required have been formally amended in a timely fashion. It should also be noted that pesticides can be classified for restricted use on the basis of experimental data and risk projections, even before initial registration, so the Agency is not constrained to wait until a problem has occurred to impose training and certification requirements.

The State Lead Agencies will certify or recertify an applicator based either on examination or training. EPA only requires an examination for initial certification of a commercial applicator, although some States require examination of private applicators. Therefore, training, generally conducted by the State

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Cooperative Extension Services, is often the basis for certification and/or recertification of a restricted use pesticide applicator. EPA, in conjunction with USDA, has recently conducted an evaluation of State Cooperative Extension Service private applicator training programs. This evaluation has uncovered deficiencies in the quality, scope and currency of some training programs. EPA is currently working with USDA and the State Cooperative Extension Services to bring the training into full compliance with our requirements.

B. **Do you have specific recommendations as to how the training and certification programs could be improved?**

ANSWER: Currently, EPA is amending its certification regulations. These amendments if adopted will establish more applicator categories and subcategories, upgrade standards of competency, establish recertification periods, and upgrade supervision requirements.

C. **Do you think such a program should be limited only to restricted use pesticides or would there be any measurable benefit to ground water protection by trying to reach the majority of agricultural chemical (including fertilizers) users with at least fundamental ground water protection information?**

ANSWER: The major emphasis of the certification and training program has been directed to restricted use pesticides. This is in accord with FIFRA, which defines commercial and private applicators as those using restricted use pesticides. Expansion of the formal certification program to address general use products is not an option under current law, and would also entail substantial resource commitments and many practical problems. However, reaching out to pesticide users with basic information, especially where there are groundwater and endangered species concerns, is a good idea. In fact, EPA's pesticide program is putting increasing effort into outreach to user

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groups on these very issues, with a view to increasing user awareness of the need for careful and informed use of pesticides in relation to sensitive resources.

QUESTION 3: **The Indiana Department of Environmental Management has conducted some sampling and found that chemicals applied to fields are found in drinking water wells, untreated water, and public water systems. Some of the pesticides found in positive samples are not registered for crops typically grown in Indiana. There could be several reasons. Some think pesticides are being used contrary to label directions;**

A. Is there information to substantiate the claim about off-label uses? If so, what is your best estimate of this activity nationwide?

ANSWER: The best source of information about use or misuse of pesticides in the State of Indiana would be the Indiana State Chemists Office, because they are responsible for pesticide regulatory activities in the State. Based upon the kinds of pesticide misuse enforcement actions taken nationally, we do not believe that use of pesticides to treat crops or sites that are not listed on the registered labels is a common or frequent problem in Indiana.

B. What is EPA doing about monitoring for contamination from urban/suburban sources?

ANSWER: EPA has not monitored for contamination from urban and suburban sources. However, under an agreement with OMB, EPA is providing pesticide usage data on urban/non-form pesticide usage sites. The Agency is conducting a National Home and Garden Pesticide Usage Survey which will be completed in early 1991. It should be noted that this Survey is not designed to specifically study pesticide contamination of ground water.

QUESTION 4: **Indiana has conducted an inventory of pesticide use for the 1988 crop year. The State wanted to get an accurate estimate of the per-acre use rate. The State has not been surveyed in 10 years.**

A. Would it be feasible to develop a pesticide use data base for the entire country that would enable farmers to know what is normal use and enable regulators to more accurately estimate benefits and risks?

ANSWER: Quantitative data on the actual usage of pesticides are critical to the accurate estimation of exposure, risks and benefits as needed for risk/benefit decisionmaking. To be truly adequate as a basis for decisions, a national data base would have to covers rather comprehensively the various agricultural and non-agricultural pesticide usage sites; contain current data i.e., within the last three years; contain adequate geographic detail with statistically valid estimates at least down to the state level; and be obtained from surveys by personal enumeration of persons actually applying the pesticides to insure that precise data are obtained. The resulting survey data would need to be made available in hard copy, in summary form, and in automated form for particular applications and analyses. Such a project is feasible, and would be very useful, but it could be expensive, and would certainly require extensive cooperation among Federal agencies, States, and the pesticide user community.

Such a data base could be developed through an ongoing series of surveys repeated every three years. These surveys could be conducted in the traditional fashion, where a new design and sampling are made for each survey. Alternatively, other approaches could be used, such as using private organizations to establish panels of cooperating pesticide users who carefully enumerate the pesticides that they use and report to the survey organization.

The panel approach to generating pesticide usage data has been used extensively in

the private sector to provide pesticide usage data to the pesticide industry and others as well as EPA since the early 1970's. It is possible that the timing of the generation of statistically valid pesticide data could be improved greatly if the various agencies with data needs were to pool their resources and go to the private sector for a large multi-year contract to obtain pesticide usage data for some or all of the agricultural and nonagricultural pesticide usage sites.

EPA would greatly benefit from having statistically valid quantitative data on actual usage of pesticides in order for the Agency to proceed with reregistration decisions for pesticides by the target year 1997. Similarly, in dealing with ground water concerns, there is increasing need for pesticide usage data, in some cases down to the county level. Very little valid usage data are currently available at the county level.

B. **What is the EPA doing to determine actual use of agricultural chemicals?**

ANSWER: EPA depends primarily on subscriptions to proprietary data bases on agricultural pesticide usage. The data on actual pesticide usage in the public domain are quite limited. USDA and the State Land Grant Universities are responsible for providing agricultural pesticide usage data under interagency agreement reached at the request of OMB in 1980. The last major multi-crop pesticide usage survey conducted by USDA was conducted in 1982 and it focused only on a few crops and not all states. USDA is currently funding usage surveys more heavily and plans to do major national surveys in the next few years. In the meantime, EPA will need to proceed primarily with the use of proprietary data sources which are available soon after the growing season and cover most crops and areas of the country. Unfortunately, the data from these sources cannot be specifically cited or quoted in support of Agency decisions without permission. Proprietary data

sources are used to make Agency staff estimates.

At this point, EPA is highly supportive of USDA's efforts to more heavily fund pesticide usage surveys and is working with them through an Interagency Pesticide Usage Data Planning Committee to identify data needs and coordinate survey efforts in such a way as to minimize respondent burden and survey costs. The Interagency Planning Committee has been functioning since the agreement reached with OMB in 1980 under the chairmanship of EPA. Under the agreement with OMB, EPA is responsible for providing pesticide usage data on urban/non-farm pesticide usage sites. Currently the Agency is conducting a National Home and Garden Pesticide Usage Survey which will be completed in early 1991.

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QUESTIONS FROM SENATOR HARKIN

QUESTION 1: **You indicated in your testimony that ground water protection policies would rely to a large extent on use of the FIFRA registration and reregistration process, including designation of restricted use products.**

A. Does this approach make progress on ground-water problems highly dependent on the process of the FIFRA reregistration process?

ANSWER: Environmental fate and leaching data from the FIFRA registration and reregistration process will allow the Agency to better assess the potential of individual chemicals to leach into ground water, therefore enabling EPA to make sound and appropriate regulatory determinations. However, the Agency has many other activities underway to address the problem of pesticide contamination in ground water. A number of examples follow: 1) The Agency is providing grants for States to develop infrastructures and build capacity, i.e., mapping, monitoring, etc. to protect ground water from pesticide contamination; 2) The Agency is also drafting criteria and guidance documents that address monitoring, response actions, and other aspects of management plans to assist the States in developing state management plans. 3) The draft "restricted-use" rule will place certain pesticides into the "restricted-use" classification depending on whether pesticide levels are detected in ground water and/or its physical chemical characteristics. In order to apply a restricted use pesticide, pesticide applicators must attend certification courses in their state.

B. What is the current status of the reregistration effort for pesticides currently in use? For how many products has the reregistration process been completed? How many products now in use are required to undergo the reregistration process?

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ANSWER: FIFRA' 88 has greatly accelerated the reregistration effort, placing much greater demands on the scientific staff of the organization. EPA has the task of reregistering 600 active ingredients over the next nine years while managing an ongoing program to register new chemicals. Any active ingredient registered since 1985 must be "re-registered." Although few pesticides have been completely "re-registered," the Agency is firmly committed to achieving the goals of reregistration, while maintaining the registration effort. In fact, these two programs go hand-in-hand, in that the registration of new safer pesticides might reduce the need for riskier, older pesticides. We will be prioritizing chemicals so that we target our resources at the riskiest chemicals.

Despite the challenges posed by starting up any program as ambitious as FIFRA' 88, we are making progress to our goal. We have not missed any deadlines imposed by FIFRA.

List A chemicals were published in February 1989.

The Phase I assignment of chemicals to lists B, C, and D was completed in April, July, and October 1989, respectively.

Phase II submission by registrants, stating their intent to reregister was completed for lists B and C; due date for list D was January 24, 1990, and responses are now being evaluated.

Much remains to be done:

During phase III, registrants must submit summaries of adequate studies, reformatted toxicology and residue chemistry studies, identify adverse data, and recommit to fill data gaps.

During phase IV Agency reviews phase II and III data submissions and imposes any additional data requirements.

During phase V Agency reviews data bases, decides on a chemical's reregistration eligibility, and reregisters products containing the chemical.

QUESTION 2: **What efforts are underway in EPA to find alternative pest control practices that would reduce environmental risks from pesticides (practices such as integrated pest managements, new chemicals, crop resistance to pests, modified farming practices)?**

ANSWER: EPA's last major IPM research effort was funded in the late 1970's. This effort was termed the Consortium on Integrated Pest Management (CIPM) and was funded at $3 million/year. EPA funded the first two years of this effort, at which time OMB transferred the funds to USDA and instructed EPA not to fund further projects in agricultural research. During the next nine years (1981-1990) EPA has mainly been involved in unfunded cooperative demonstration projects of promising non-crop IPM technologies (e.g. cockroach, gypsy moth, grasshopper, termite, rodent, and turf pest IPM). Most recently, however, there has been increasing interest, both inside and outside the Agency, for EPA to take a more active role in the fields of IPM and low-input sustainable agriculture (LISA) research. We feel such research contributes to the Agency's general policy of pollution prevention. EPA's Office of Policy, Planning, and Evaluation (OPPE) plans to dedicate $2-3 million in FY 91 for pesticide pollution prevention (IPM) research. These monies would serve to fund a state competitive grants fund for this type of research and would be closely coordinated with USDA's IPM and LISA research programs.

A. **How many EPA personnel are dedicated to this effort?**

ANSWER: Currently, in the Office of Pesticide Programs, five people are devoted to IPM on a full-time basis.

B. **How much money does EPA devote to this effort:**

ANSWER: The IPM program has had no extramural funding for the past six years.

C. **What role do you foresee for EPA in finding new and more environmentally sound pest control practices?**

ANSWER: In addition to our various statutory responsibilities, we believe EPA has an important role in defining the

environmental issues affected by agricultural (and other land use) policies. EPA can and should play a constructive role in shaping the national research agenda by directing pollution prevention funds at research efforts aimed at environmentally sound practices, including new pest control technologies of every kind, whether that means new and safer types of pesticide chemicals or alternative pest management practices that reduce reliance on chemicals.

D. **How will you coordinate these efforts with USDA?**

ANSWER: Efforts are being directed at establishing closer liaison with USDA, and its numerous research agencies, for the purpose of coordinating research and leveraging research monies for the maximum benefit of all the cooperators. EPA staff participate in the planning of many USDA research programs which affect our areas of responsibility and expertise. To cite just one of many current examples, a corn herbicide reduction project, submitted by the Agricultural Research Service is projected to be funded (for $190,000 per year) by EPA's pollution prevention program.

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QUESTION 3: **You indicated that the use of a pesticide within a state may depend on compliance with a management plan for the product in that state.**

A. Is this type of plan (meant) to regulate the use of a product by individual farmers?

ANSWER: For EPA-designated pesticides, states will need to develop and implement state pesticide management plans that tailor use to local variations in ground water vulnerability. The State management plans may discuss ground water protection measures, legal authority, resources, geographic planning, enforcement, monitoring, relaying use information to users and dealers, actions in response to ground water contamination, public awareness/participation and records/reporting of program progress to EPA. In developing the ground water contamination prevention measures to be imposed, the state may consider the incentives, ability and willingness of the user to implement such measures.

Individual farmers will need to implement many of the prevention measures described in the plan which are designed to prevent unreasonable ground water contamination from pesticides. Plans should describe a spectrum of management measures, with the most stringent measures imposed on areas most susceptible to ground water contamination and taking benefits from pesticide use into consideration. These measures can include prohibition of use or moratoria, reductions in the rate of use, well set-back restrictions, application method limitations, time-of-the-year restriction on applications, proper storage, handling, transportation and disposal requirements of excess product, mixing, loading requirements, changes in agronomic practices, permit or advance notice program, user education, training and certification requirements and programs, or other measures.

B. How would the plan be enforced?

ANSWER: The state pesticide management plan must describe the State's enforcement capabilities, authorities, and compliance activities in terms of assuring compliance with the measures to protect ground water from contamination and in terms of response actions where contamination has

already occurred. Enforcement authority should be identified by the State, and the roles and responsibilities of each State agency should be defined.

In terms of procedure, the requirement for use in accordance with an approved State Management Plan can be referenced on the pesticide label, and thereby make the Plan enforceable under FIFRA, just as other use directions and restrictions on pesticide labeling are.

C. **Would there be record-keeping requirements for individual farmers?**

ANSWER: In the draft Guidance for Pesticide Management Plans, the Agency has not required farmers to keep records of pesticide use. In the state management plans to be submitted to the Agency, however, States can require farmers to keep such records, as some States already do.

State agencies will probably be required to keep records on monitoring efforts, including results of sample analyses, issuance of permits, the types and number of enforcement actions, site-specific regulatory actions, and administrative action.

D. **What would be the penalties or consequences of violation of the management plan?**

ANSWER: The State would have responsibility for implementing and ensuring compliance with the measures described in the management plan. EPA would be in charge of overseeing implementation of the plan to ensure that ground water is protected from pesticide contamination. If the state plan is "not working," i.e., there are adverse effects from pesticide contamination of ground water, EPA may prohibit the use of the pesticide in the state.

E. **What criteria will EPA use to decide to impose a state management plan rather than to prohibit the use of the product?**

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ANSWER: In protecting ground water, local variability in ground water vulnerability and pesticide usage must be recognized. If a pesticide poses risk to ground water only in certain areas of the country, it is not appropriate to modify its use nationally. If the Agency dealt with ground water only on a national basis, it is likely that ground water would be over-regulated in some areas and under-regulated in others.

Thus, the Agency would be inclined to favor the option of allowing states to tailor management plans to local conditions, unless the pesticide was causing adverse effects to human health and the environment on a national level. However, the Agency may prohibit the use of a pesticide in a specific state where EPA has required a state pesticide management plan, if the state does not have an EPA-approved state plan or if the plan is not adequately protecting human health and the environment from unreasonable risks.

ATTACHMENT I

federal register

Wednesday
October 19, 1988

Part VI

Environmental Protection Agency

Regulation of Pesticides in Food: Addressing the Delaney Paradox Policy Statement; Notice

ENVIRONMENTAL PROTECTION AGENCY

[OPP-260052; -FRL-3384-3]

Regulation of Pesticides in Food: Addressing the Delaney Paradox Policy Statement

AGENCY: Environmental Protection Agency (EPA).

ACTION: Notice.

SUMMARY: This Notice announces a change in the position EPA will take in rulemaking proceedings under section 409 of the Federal Food, Drug, and Cosmetic Act (FFDCA) concerning certain pesticides intended for use in food production. EPA's position will be that the section 409's so-called Delaney Clause—which, read literally, purports to bar absolutely the issuance of a food additive regulation for a food additive that has been found to induce cancer in test animals—is subject to a *de minimis* exception where the human dietary risk from residues of the pesticide is at most negligible. This change in position is intended to foster greater consistency in actions EPA will take with respect to the registration of pesticides under the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) and tolerances for pesticide residues on food under sections 408 and 409 of the FFDCA. Elsewhere in this issue of the Federal Register, the Agency is proposing new procedural rules for establishing, modifying, and revoking section 409 food additive regulations, as well as procedural rules governing the filing of objections, requests for hearings, and the holding of hearings under sections 408 and 409. This Notice also discusses how EPA plans to approach the issue of what risks might be considered "negligible." This Notice provides the Agency's response to the recommendations of the recent National Academy of Sciences report entitled "Regulating Pesticides in Food: The Delaney Paradox". Public comment is invited on this Notice.

ADDRESS: Comments should bear the document control number "OPP-260052", and be submitted in triplicate to: Public Docket and Freedom of Information Section, Field Operations Division (TS-757C), Office of Pesticide Programs, Environmental Protection Agency, 401 M Street, SW., Washington, DC 20460.

FOR FURTHER INFORMATION CONTACT: By mail: William L. Jordan, Policy and Special Projects Office, Office of Pesticide Programs (TS-788C), Environmental Protection Agency, 401 M Street, SW., Washington, DC 20460. Office location and telephone number: Room 1115, CM #2, 1921 Jefferson Davis Highway, Arlington, VA, (703-557-7102).

SUPPLEMENTARY INFORMATION:

I. Introduction

The Environmental Protection Agency is responsible for regulating the sale and use of pesticide products under the authority of the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA), (7 U.S.C. 136 *et seq*). FIFRA contains a standard for registration that allows EPA to take both the risks and the benefits of a pesticide's use into account.

The Agency also regulates pesticide residues on food under sections 408 and 409 of the Federal Food, Drug and Cosmetic Act (FFDCA) (21 U.S.C. 346a, and 348). Food is "adulterated" and subject to seizure under the FFDCA if it is found to bear pesticide residues that are not permitted by appropriate section 408 and 409 tolerances. Section 408 of the FFDCA, like the FIFRA, gives the Agency authority to balance risks and benefits in reaching regulatory decisions with respect to pesticide residues on raw agricultural commodities; section 409 of the FFDCA governs the establishment of food additive regulations (often called 409 tolerances) in processed food and feed. EPA interprets section 409 to also allow EPA to consider benefits to food consumers in reaching its decisions unless the Delaney Clause applies. However, the Delaney Clause of section 409, if read literally, is a risk-only standard that bars the establishment of any food additive regulation that would authorize residues in or on processed food or feed of any pesticide that has been found to induce cancer when ingested by man or test animals, with certain limited exceptions.

The difference in the standards of these two statutes presents EPA with a major problem in regulating certain pesticide chemicals which have been found to induce cancer in test animals. Such pesticides may be ineligible for food additive regulations under the FFDCA even if they have been found to pose no unreasonable risk to humans and qualify for registration under FIFRA. This problem may arise in three situations: (1) When a food additive regulation is sought for a new pesticide chemical (or a new use of a currently registered chemical) that induces cancer in animals; (2) when new residue data indicate a need for a food additive regulation for a registered pesticide known to induce cancer in animals; or (3) when new toxicity data show that a registered pesticide for which food additive regulations have been established induces cancer in animals.

In the first situation, the issue is whether to allow the pesticide to enter the market or to be marketed initially for a particular food use. EPA's current regulations prohibit FIFRA registration until the issuance of any needed tolerances and food additive regulations associated with the pesticide's use. The second and third situations require EPA to decide whether to make unlawful the marketing of a pesticide for those previously-approved food uses subject to section 409. The number of uses in these latter two categories is increasing as EPA receives more and more toxicity and residue data. Of significant concern are the differences in the standards now applied to old and new pesticides. Under current Agency practice, as described more fully later in this Notice, a new pesticide that poses a relatively low risk of cancer may be barred from registration because of Delaney Clause constraints, while an old pesticide that poses a higher risk and that is used for the same purposes might remain on the market.

To address these issues, in February 1985 the Agency commissioned the Board on Agriculture of the National Research Council/National Academy of Sciences ("NAS") to examine the impact of the Delaney Clause on the tolerance-setting process and on EPA decision-making. The NAS committee formed to conduct this study included experts in agricultural pest control, pesticide development, agricultural economics, cancer risk assessment, public health, food science, regulatory decision making, and law.

The detailed report prepared by the NAS, entitled "Regulating Pesticides in Food: The Delaney Paradox," was issued on May 20, 1987. The report set forth four main recommendations:

1. Pesticide residues in food, whether marketed in raw or processed form or governed by old or new tolerances, should be regulated on the basis of consistent standards. Current law and regulations governing residues in raw and processed foods are inconsistent with this goal.

2. A negligible risk standard for carcinogens in food, applied consistently to all pesticides and to all forms of food, could dramatically reduce total dietary exposure to oncogenic pesticides with modest reduction of benefits.

3. EPA should focus its energies on reducing risk from the most worrisome pesticides on the most-consumed crops.

4. The EPA should develop improved tools and methods to more systematically estimate the overall

impact of prospective regulatory actions on health, the environment, and food production.

The Agency has evaluated the recommendations of the NAS, and as discussed later in this document, has reached conclusions about what would be an ideal policy, one that would be based on the NAS recommendations. In summary under this ideal policy, the Agency would apply a uniform set of criteria to all FIFRA registration decisions and all FFDCA section 408 tolerance and section 409 food additive regulation decisions. If a pesticide's use would pose no risk or only a negligible risk, the pesticide's use would be approved under both Acts without any particular scrutiny of benefits. This has for some time been EPA's practice with respect to decisions on pesticides that pose only non-cancer risks, and with respect to decisions under FIFRA and under FFDCA section 408 on pesticides that may pose cancer risks. (EPA has assumed that an applicant's willingness to expend the sums required to obtain registration of a pesticide, in the expectation of recovering those sums by sales of the pesticide, indicates that the pesticide's use will yield benefits that are greater than negligible.) Under the ideal policy, registrations and the associated tolerances and food additive regulations similarly would be granted for pesticides that pose at most a negligible risk of cancer to humans (and meet the other requirements of FIFRA and the FFDCA). For those pesticides deemed to pose a greater-than-negligible risk, a risk/benefit evaluation would determine the appropriateness of FIFRA registration and FFDCA clearances under sections 408 and 409. The greater the degree of risk, the greater the benefits that would have to be shown to justify approval, and the more intensive would be the benefits evaluation required to reach a regulatory decision.

Implementation of this ideal policy, however, is subject to the constraints imposed by the Delaney Clause. In the case of a use of a pesticide that requires a section 409 clearance and that poses a cancer risk that is greater than negligible, the Delaney Clause ordinarily bars approval of the use; the Agency is unaware of any legal theory that would justify a change in its current practice of refusing to issue new food additive regulations in such situations (with certain exceptions discussed in detail later in this Notice). However, for pesticides that pose at most a negligible risk of cancer and whose use requires section 409 clearances, EPA will change its current practice to the extent that, in the future, EPA will propose to issue food additive regulations on the basis of the *de minimis* doctrine, described in Unit II of this Notice.

The Agency wishes to make it clear that the interpretations and policy changes it is announcing today have no final effect with respect to any individual pesticide. This Notice relates primarily to the regulatory treatment of some pesticides under FFDCA section 409. Any food additive regulation that EPA may issue in reliance on the *de minimis* doctrine discussed in this Notice will be preceded by issuance of a proposed rule, and also will be referred to the FIFRA Scientific Advisory Panel. Section 409(b) and 409(h) allow "any person" to petition EPA to issue, modify, or revoke a section 409 food additive regulation, and section 409(c) says that EPA must act on such a petition. Under section 409(f), any "adversely affected person" (a term that has been given a very inclusive reading by the courts) may object to an EPA action taken either in response to a section 409(b) petition or at EPA's own initiative under section 409(d). EPA must rule on the objection; if factual matters are at issue, EPA first must hold a formal evidentiary hearing to produce a record upon which the ruling must be based. Although this Notice sets forth positions that the Agency expects to take initially in relevant proceedings arising under FFDCA section 409, EPA decisional officials will be open to all arguments presented in those proceedings and will base their final decisions on the merits of the arguments presented. See *McLouth Steel Products Corp. v. Thomas*, 838 F. 2d 1317 (D.C. Cir. 1988). Judicial review of rulings on individual objections under FFDCA section 409 is available only in the manner described by section 409(g). EPA will take the position that this Notice is not itself properly the subject of judicial review because it lacks the requisite finality.

A detailed discussion of the policy changes involved is set forth in Unit III. of this Notice.

II. Legal and Regulatory Background

EPA often must apply four different and sometimes conflicting statutory standards in deciding whether a particular pesticide may be used in food production: one under the FIFRA and three under the FFDCA.

A. The Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA)

The sale, distribution, and use of pesticides in the United States are governed directly by the FIFRA and are also influenced heavily by the FFDCA. FIFRA requires that all pesticides which are sold or distributed in the United States be registered in accordance with the statutory standard for registration set forth in FIFRA. That standard requires, among other thing, that the pesticide perform its intended function without causing "unreasonable adverse effects on the environment." (FIFRA section 3(c)(5)). The term "unreasonable adverse effects on the environment" is defined as "any unreasonable risk to man or the environment, taking into account the economic, social and environmental costs and benefits of the use of any pesticide." (FIFRA section 2(bb)). Under FIFRA section 6, EPA may cancel the registration of a use of a pesticide [1] (or require modifications in the terms and conditions of registration in lieu of cancellation) if the Agency determines that the risks of use of the pesticide outweigh the benefits of the use.

EPA regulations (40 CFR 162.7(d)(2)(iii)(E)) and 162.167(a)(4), redesignated as 40 CFR 152.112, 152.113, and 152.114, see 53 FR 15952, May 4, 1988) provide that a registration may not be granted if "the intended use of the pesticide results or may reasonably be expected to result, directly or indirectly, in residues of the pesticide becoming a component of food or feed," unless the necessary sections 408 and 409 clearances have been issued.

This requirement assures that a pesticide use will not be registered for a food crop unless the Agency has determined that the resulting pesticide residues in or on the crop will not exceed a safe level. Moreover, by examining the pesticide use under the statutory scheme as a whole and assuring that the criteria of both FIFRA and FFDCA are met, the Agency avoids the potential for residues that are illegal under the FFDCA appearing in or on foods as a result of pesticide use that is legal under FIFRA. It has been EPA's belief that pesticide users and food processors should be able to safely assume that a pesticide registered under FIFRA has the appropriate clearances under the FFDCA for the food uses listed on the FIFRA label.

B. Sections 408 and 409 of the Federal Food, Drug and Cosmetic Act (FFDCA)

Under FFDCA section 402, a raw agricultural commodity is adulterated if

[1] The decision to cancel a pesticide can result from a Special Review, an intensive review of the risks and benefits of a pesticide which meets or exceeds risk criteria set forth in 40 CFR Part 154. The Agency also can take action to cancel (and, if necessary, to suspend during the cancellation proceedings) the registrations of a pesticide whose risks appear to exceed its benefits, without first going through the Special Review process.

it contains a pesticide residue not authorized by a FFDCA section 408 tolerance (maximum permissible level) or an exemption from the requirement of a tolerance. An adulterated commodity sold or distributed in interstate commerce is subject to seizure by the Food and Drug Administration (FDA).[8]

To establish a tolerance or exemption regulation under section 408, the Agency must find that the regulation would "protect the public health." (FFDCA section 408(b)). In reaching this determination, the Agency is directed to consider, among "other relevant factors," the necessity for the production of an adequate, wholesome, and economical food supply, and the other ways in which the consumer may be affected by the pesticide. Thus, in the Agency's view, section 408 of the FFDCA expressly gives the Agency the authority to balance risks against benefits in determining appropriate tolerance levels.

Under FFDCA section 402, food is adulterated (and hence subject to seizure) if it contains any food additive (including any pesticide residue) not authorized by a section 409 food additive regulation. An important exception to this provision is that a processed food containing pesticide residues resulting from the "carryover" from treatment of the raw agricultural commodity stage is not regarded as adulterated if the residue level in such a food is no greater than that allowed by the section 408 tolerance established for the raw agricultural commodity.

The establishment of a food additive regulation under section 409 requires a finding under the "general safety clause" in section 409(c)(3) that the use of the pesticide "will be safe." The only direct guidance given by the Act as to the meaning of the term "safe" is that the term "has reference to the health of man or animal." (FFDCA section 201(u)). Factors to be considered in making this "general safety clause" determination are (1) the probable consumption of the pesticide or its metabolites, (2) the cumulative effect of the pesticide in the diet of man or animals, taking into account any related substances in the diet, (3) appropriate safety factors to relate the animal data to the human risk evaluation; and (4) "other relevant factors." FFDCA Section 409(c)(5)).

Appendix A contains a discussion of the procedures followed by the Agency in evaluating safe residue levels for tolerances and food additive regulations.

The general safety clause in section 409(c)(3) has been construed by the Agency to allow the weighing of benefits and risks when issuing food additive regulations. The legislative history indicates that section 409 was intended to permit the use of food additives "which may benefit our people and our economy when the proposed usages of such additives are in amounts accepted * * * as safe," and that "the test which should determine whether or not a particular additive may be used in a specific percentage of relationship of the volume of the product to which it might be added should be that of reasonable certainty in the minds of competent scientists that the additive is not harmful to man or animal." (S. Rep. No. 2422, 85th Cong. 2d Sess., August 18, 1958, at 3–3). In EPA's view, the determination of whether use of a pesticidal food additive is "not harmful" or is "safe" should take into account the net effects of use of the additive on the food supply, including the benefit (or to put it another way the avoidance of harm) to an adequate, wholesome, and economical supply of food that may result from a pesticide's use as well as any harm to the food supply that may result from the pesticide's use. At least for residues of pesticide chemicals, EPA believes that this kind of benefit should be regarded as one of the "relevant factors" EPA may consider under FFDCA section 409(c)(5), even though it is not listed specifically there as it is in section 408(b). A risk/benefit reading of the general safety clause also was adopted by the one court that has addressed the issue.[9] FDA, however, has tended to interpret the section 409 general safety clause as a criterion that focuses solely on the risks to the food supply caused by the food additive, as opposed to the risks avoided, and this view has considerable support in the legislative history of section 409 and in scholarly journals.

C. The Delaney Clause

The one clear exception to the Agency's latitude to balance risks and benefits for food additives under section 409 is the "Delaney Clause" in section 409(c)(3). The Delaney Clause states that a food additive shall not be deemed safe "if it is found to induce cancer when ingested by man or animal or if it is found, after tests which are appropriate for the evaluation of the safety of food additives, to induce cancer in man or animal." Because FFDCA section 408 contains no counterpart to the Delaney Clause, the Agency has the authority to evaluate the risk posed by the presence of residues of a carcinogenic pesticide in a raw agricultural commodity, and to establish a section 408 tolerance at a level which will protect the public health, taking benefits to the food supply into account. As long as the processed food does not contain residues above the level allowed in the raw agricultural commodity, residues of that carcinogenic pesticide may legally be present in such processed food. However, where residues of the chemical concentrate above the section 408 tolerance level during processing, or result from use of a pesticide during or after processing, a food additive regulation might not be appropriate because of the Delaney Clause bar. The Delaney Clause contains an express exception (the "DES proviso") that allows a carcinogenic ingredient of animal feed to be found "safe" if such ingredient will not adversely affect the animal and if "no residue" of the substance will be found, by an Agency-approved method, in any edible food yielded or derived from the treated animal. FDA has concluded that the provision should be implemented by a "sensitivity-of-method" approach that allows a carcinogenic ingredient to be added to animal feed if "no residues" of that ingredient are detectable by an FDA-approved analytical method that is sensitive enough to detect any level of residue representing a lifetime excess human cancer risk of more than one in a million (44 FR 17070).[10] The FDA

[8] Under Reorganization Plan No. 3 of 1970, which established EPA, the authority to set tolerances for pesticide chemicals in raw agricultural commodities and processed food under FFDCA sections 408 and 409 respectively was transferred from FDA to EPA. FDA enforces most of the pesticide tolerances and food additive regulations that EPA issues. The U.S. Department of Agriculture enforces the tolerances and food additive regulations with respect to meat, poultry, and egg products.

[9] In *Continental Chemiste Corp. v. Ruckelshaus*, 481 F.2d 331, 340–341 (7th Cir. 1972), a case dealing with the relationship of FIFRA and FFDCA, the court stated that "[t]he test of safety [contained in the general safety clause of section 409] was intended to take into account the broader concepts of safety under the intended conditions of use; the benefits of the additive were to be evaluated rather than merely its potential for harm. In short, in making its ultimate determination whether new additives, or food containing them, may be marketed, [the FFDCA] employs the kind of substantive standard of product safety embodied in [the pre-1972] FIFRA's theory in these passages, rather than a narrow consideration of the character of the additive itself." In discussing the "injury to man" concept, the court noted that "the substantive standards, phrased in terms of protection of the public and impact on living man, require considerations of the aggregate effect of a product's use upon the environment, including not only its potential for harm, but also the benefits which would be lost by removing it from the market." *Id.* at 336.

[10] FDA has analyzed the meaning of the DES proviso in proposed regulations published in the

Continued

approach incorporates a series of conservative assumptions for calculating the allowable residue levels in individual food items and in the total diet.

EPA has used the sensitivity-of-method approach in two actions establishing food additive regulations, one concerning thiodicarb and its possibly oncogenic metabolite acetamide on the animal feeds cottonseed hulls and soybean hulls (50 FR 27452, July 3, 1985; 50 FR 41341, October 10, 1985), and another concerning cyromazine and its possibly oncogenic metabolite melamine in or on poultry feed (49 FR 18120, April 27, 1984; 50 FR 20370, May 15, 1985).

If the chemical induced cancer in animal studies in which the route of exposure was other than ingestion, the Delaney Clause by its own terms applies only if the tests in question "are appropriate for the evaluation of the safety of food additives." The Agency thus has discretion to decide whether a test showing cancer induction as a result of, e.g., dermal exposure to a chemical is "appropriate" for Delaney Clause purposes.

Two administrative doctrines, the "constituents policy" and the *de minimis* approach, also in EPA's view allow the establishment of food additive regulations in appropriate situations. The "constituents policy," developed by FDA, relies on the fact that the prohibitory language of the Delaney Clause pertains to any food additive, that has been shown to induce cancer in animals, but does not bar approval where an unwanted impurity (a "constituent") of the additive, tested by itself, is found to induce cancer. Thus, under the constituents policy, a food additive regulation may be established if the food additive as a whole does not cause cancer, even though the additive contains an undesired, nonfunctional constituent which is itself a carcinogen. In this situation, the impurity is judged under the general safety provisions of the applicable section of the FFDCA, using risk assessment as one of the decision making tools. The Sixth Circuit Court of Appeals has upheld FDA's use of the constituents policy to interpret the color additives Delaney Clause provision in section 706(b)(5)(B) of the statute. (*Scott v. FDA*, 728 F. 2d 322 (6th Cir. 1984).) This provision contains a prohibition closely similar to that found in the section 409 Delaney Clause.

EPA has used the constituents policy in a rulemaking establishing a food additive regulation for dicamba in sugarcane molasses. Dicamba itself is not thought to be oncogenic; however, the pesticide formulation contains small amounts of a carcinogenic nitrosamine contaminant. EPA found the potential risk attributable to the presence of this contaminant to be very small, i.e., with an upper limit in the 10^{-9} range. Accordingly, the agency concluded that the requirements of section 409 were satisfied. (48 FR 11119, March 16, 1983; 48 FR 34024, July 27, 1983; 48 FR 50528, November 2, 1983).

In discussing its use of the "constituents policy" approach for dicamba, EPA noted that it does not regard deliberately added active or inert ingredients, or metabolites thereof, as potential candidates for clearance under the constituents policy. Rather, the Agency said it would only consider applying the rationale to unwanted impurities resulting from the manufacture of the pesticide (intermediates, residual reactants, products of side reactions, and chemical degradates). Furthermore, the Agency said that it would consider using this rationale in issuing a food additive regulation only where the potential risk from the impurity is extremely low, and that in estimating this risk, the Agency would rely on very conservative risk estimation methodology. (48 FR 34024, July 27, 1983).

Finally, the *de minimis* approach derives from case law holding that an administrative agency ordinarily has the inherent authority to avoid applying the terms of a statute literally when to do so would yield pointless results.[5] Two conditions are necessary to allow an agency to invoke the *de minimis* doctrine. First, the problem that would be addressed by regulation must be trivial in fact, such that no real benefit would result from regulation. Second, the legislative design must allow the Agency not to apply the statute literally in such a case.

In a recent case addressing the Delaney Clause contained in the color additive provisions of the FFDCA enacted in 1960 (*Public Citizen v. Young*, 831 F.2nd 1108 (D.C. Cir. 1987), cert. denied, 108 S.Ct. 1470), FDA argued that the establishment of a *de minimis* exception to the Delaney Clause is consistent with the legislative design, and that conservatively-assessed risks of one in a million (10^{-6}) or less should be regarded as trivial and thus subject to the exception. FDA relied on legislative history indicating that the Delaney Clause should be applied in a reasonable way. But the court rejected FDA's argument that the legislative history of the FFDCA color additive provisions does not preclude the use of the *de minimis* exception. The court held that "the Delaney Clause of the Color Additive Amendments does not contain an implicit *de minimis* exception for carcinogenic dyes with trivial risks to humans" because "Congress adopted an 'extraordinarily rigid' position, denying the FDA authority to list a dye once it found it to 'induce cancer in * * * animals'." (831 F.2nd at 1122). In the court's view, the proper mechanism for obtaining relief from the Delaney Clause with respect to color additives whose risk is trivial is to request that Congress make appropriate modifications to the statute. The food additive Delaney Clause in section 409, adopted in 1958, was not at issue in the case. Indeed, the court noted that the context of the section 409 provision was entirely different from that of the color additive Delaney Clause, and that "the operation of the food additive Delaney Clause raises complex issues distinct from those of this appeal" (id. at 1120, 1118 n. 13). The court suggested, moreover, that the legislative history of the section 409 Delaney Clause might lead to a different result (id. at 1120).

The Delaney Clause has long been regarded as allowing the administering agency to exercise scientific judgment and discretion in deciding whether a food additive "induces cancer" in animals.[6] EPA has generally assumed that, for purposes of the Delaney Clause, a substance "induces cancer" in animals if, in a well-conducted animal feeding study, a statistically significant increase in the incidence of histologically related tumors (benign, malignant, or combined)

Federal Register of March 20, 1979 (44 FR 17070) and February 11, 1982 (47 FR 6041). FDA's final rule establishing procedures implementing this sensitivity-of-method approach was published on December 31, 1987 (52 FR 48577).

[5] See *Alabama Power Co. v. Costle*, 636 F.2d 323, 360 (D.C. Cir. 1979); *District of Columbia v. Orleans*, 406 F.2d 957, 958 (D.C. Cir. 1968); *Environmental Defense Fund, Inc. v. EPA*, 598 F.2d 1307, 1324 n. 48 (D.C. Cir. 1978).

[6] See, e.g., the 1958 statement by Arthur S. Flemming, Secretary of Health, Education and Welfare, that the Delaney Clause "allows the Department and its scientific people full discretion and judgment in deciding whether a substance has been shown to produce cancer when added to the diet of test animals," cited with approval in the Report of the House Committee on Interstate and Foreign Commerce on the Color Additive Amendments of 1960 (H.R. Rep. No. 1761, 86th Cong. 2d Sess., June 7, 1960) at 14. See also the May 1968 report of the President's Science Advisory Committee, saying that "[t]he definition of a carcinogen implicit in the language of section 409 (c) requires discretion in its interpretation because we may sometimes enter into a judgment as to whether a particular substance is or is not carcinogenic," cited with approval in the Senate floor debate on reconsideration of the Delaney Clause in the Color Additive Amendments of 1960, Congressional Record 15288 (July 1, 1960).

e observed in treated animals compared to concurrent control animals, unless there is a reason to conclude that the observed increase is unrelated to the ingestion of the test substance. Under this approach, a pesticide may be found to "induce cancer" in animals despite the fact that increased tumor incidence occurs only at high doses, or that only benign tumors occur, and despite negative results in other animal feeding studies. FDA has taken a similar approach in assessing data for the purposes of the Delaney Clause.[7]

There is at least "limited evidence" of carcinogenicity (virtually all from animal studies) for 66 or more of the approximately 350 food-use pesticides already approved for use, under the classification scheme set forth in EPA's Guidelines for Carcinogen Risk Assessment " (51 FR 33992, September 24, 1986), described in Appendix A. EPA expects this number to become somewhat larger as it receives and evaluates more studies on the food-use pesticides.[8] A substantial portion of these pesticides require section 409 food additive regulations for one or more of their uses. Appendix B lists those pesticides which currently have been identified by the Agency as potential carcinogens and indicates which ones have, or have recently been determined need, section 409 food additive gulations.

Current Policy Has Been Constrained the Delaney Clause

From the foregoing discussion, it is parent that if EPA determines that a pesticide poses a cancer risk that is greater than negligible and that outweighs the pesticide's benefits, the pesticide's FIFRA registration should be cancelled and its FFDCA sections 408 and 409 clearances should be revoked. There is no conflict between the various standards in such a case, and EPA's current practice reflects this lack of conflict.

Difficulties arise in the two remaining situations. A pesticide may pose only a negligible cancer risk, or it may pose a cancer risk that is greater than negligible but nonetheless is not so great as to outweigh the pesticide's benefits to the food supply. In both of the latter situations, EPA views FIFRA, FFDCA section 408, and FFDCA section 409's general safety clause as allowing the registration or continued registration of the pesticide and the issuance or continuation of needed FFDCA clearances. But the Delaney Clause of FFDCA section 409 arguably bars the issuance of new section 409 clearances for pesticides in either of the latter two situations, and thus concomitantly calls into question the status of such pesticides under FFDCA section 408 and FIFRA. Due to the constraints dictated by the literal approach to the Delaney Clause, the Agency has not been willing to register a carcinogenic pesticide for a new food use which requires a section 408 food additive regulation, even though that pesticide meets the risk/benefit standards in the other statutory provisions. And since there is often no practical way to assure that the raw agricultural commodity at issue will not be processed, the Agency generally does not grant a section 408 tolerance for residues of the pesticide on a raw agricultural commodity in a situation where an associated section 408 food additive regulation is needed but cannot be issued. As noted earlier, EPA's regulations currently provide that before a pesticide may be registered under FIFRA for a food or feed use, there must exist appropriate clearances under FFDCA sections 408 and 409 for the pesticide residues.

However, if the pesticide is to be used on a type of raw agricultural commodity which is not processed or if concentration of the raw-commodity residues does not occur during processing, and if the pesticides is not added during or after processing, no food additive regulation is needed. If the pesticide use passes the risk/benefit test under FIFRA and FFDCA section 408, a registration can be granted. This is true even if the estimated dietary cancer risk to the public is the same as or higher than the risk posed by an analogous pesticide use for which a food additive regulation is required. Thus, very similar risk situations have been treated quite differently because of the inconsistent statutory provisions. This approach has not necessarily resulted in lower health risks for the public. In fact, there is a strong argument that in some cases the constraints of the Delaney Clause paradoxically may have led to greater risks to the public. New pesticides that pose lower cancer risks than pesticides currently on the market have been denied registration while older, more hazardous pesticides remained in use.

The Agency's treatment of established food additive regulations for registered pesticide chemicals shown by new data to induce cancer in test animals has been quite different than the just-described treatment of requests for new food additive regulations. To date, the Agency has not taken action based on the Delaney Clause to revoke established food additive regulations. In many instances, taking such action would require EPA either to revoke the associated 408 tolerances and cancel the FIFRA registration (despite the risk/benefit criteria that would govern such actions), or to abandon its long-standing policy that the lawful application of a pesticide should not result in illegal pesticide residues. Many of these pesticides appear to pose low or negligible risks and to have substantial benefits for the production of food in this country.

The Agency has deferred action in such cases, while studying the dilemma posed by the statutory scheme. Section 409(b), which authorizes EPA to issue regulations establishing procedures for amending or repealing food additive regulations, does not expressly require repeal of food additive regulations when new data indicate that the pesticide induces cancer.[9] The Agency arguably has the latitude to assess the safety of established food additive regulations under any standard it chooses to adopt that is not arbitrary and capricious within the meaning of the Administrative Procedure Act; it arguably could adopt a standard based on the general safety clause of section 409(c)(3), or on a non-FFDCA standard, such as the FIFRA risk/benefit standard

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[7] See 52 FR 49872, 49877 (December 31, 1987) for a statement of FDA's current policy. See also 53 FR 421, 26340 (August 7, 1988), where FDA specifically noted that "any chemical shown to cause cancer even in only one strain, gender, and dose, at one dose in one experiment, is an animal carcinogen." The evidence on a whole may lead FDA to conclude that a substance that only causes benign tumors should be regulated as a carcinogen under the Delaney Clause. (52 FR 49877, December 31, 1987). However, a finding of only benign tumors is not of necessarily lead FDA to conclude that the chemical "induces cancer" under the Delaney Clause.

[8] In recent years, the Agency has been conducting systematic review of currently registered pesticides under the Registration Standards program, to review determinations the sufficiency of the data base for these chemicals in light of current data requirements, and evaluation the current terms of registration to see if modifications are appropriate. During the development of a Standard, data gaps are identified and data call-in notices sent to registrants pursuant to FIFRA section 3(c)(2)(B), which gives the Agency authority to require the submission of data necessary to support existing registrations. The Agency evaluates the adequacy of food tolerances and food additive regulations for chemicals reregistered for food uses during the registration Standard review. Appendix C lists the food use pesticides for which Registration Standards have been developed or are scheduled for 1988.

[9] Section 409(b) states: "[The Administrator] shall by regulation prescribe the procedure by which regulations under [section 409] shall be amended or repealed, and such procedure shall conform to the procedure provided in this section for the promulgation of such regulations." The interpretation that revocation is not expressly required is based on giving the term "procedure" its normal meaning rather than reading into the term the substantive criteria of section 408.

Thus, the Agency could conclude that a previously-approved use of a pesticide is "safe" or not "unreasonable," even though the potential risk is greater than "negligible," if the benefits of the use to the food supply outweigh its risks. On the other hand, if the Agency concluded that the presence of residues in the processed food or feed posed a risk that is "unreasonable" within the meaning of FIFRA or not "safe" within the meaning of the general safety clause of FFDCA section 408, considering the balance of risks and benefits, the Agency would be under an obligation to take action to repeal the regulation (or, in appropriate situations, to amend the regulation to allow a lower residue level determined to be "safe" or "reasonable") and to cancel or modify the terms and conditions of the related FIFRA registration as necessary to assure that the use of the pesticide did not cause unreasonable adverse effects on the environment. This approach would allow EPA to reconcile the FIFRA and FFDCA standards.

The contrary argument would rest on the assumption that Congress must have intended any reevaluation of an existing food additive regulation to be based on the section 409(c) criteria for establishing new regulations, and that the Delaney Clause is an integral part of section 409(c). This view of section 408 thus would incorporate section 409(c)—including the Delaney Clause—into section 409(h) of the statute. Under this reading, a food additive regulation would have to be revoked if new information should indicate that the Delaney Clause would have barred issuance of the regulation had that information been available originally.[10]

Such an approach might result in the cancellation of pesticide registrations for uses that meet the risk/benefit standard of FIFRA, FFDCA section 408, and FFDCA section 409's general safety clause, but that cannot conform to the risk-only, zero-risk standard of the Delaney Clause. Once the food additive regulation had been repealed, the presence of residues of that pesticide in the processed food in question would be illegal under the FFDCA, and the wisdom of allowing the pesticide to be sold under the FIFRA registration for use in producing that food would be questionable. To be consistent, many related section 408 tolerances also would have to be repealed under this approach, because such tolerances arguably would be inappropriate where residues would concentrate during processing to an unapproved level higher than the tolerance for the raw agricultural commodity. This approach, carried to its logical conclusion, might end many valuable uses of pesticide chemicals and might result in significant adverse consequences to food production, while resulting in little or no risk reduction. It should be noted that a registrant of a pesticide faced with a proposed FIFRA cancellation based entirely or primarily on the fact that the pesticide's residues are not thought to be "safe" within the meaning of FFDCA section 409 might assert that a FIFRA cancellation cannot be based on criteria imported from the FFDCA, and might succeed (see *Continental Chemists Corp. v. Ruckelshaus*, 461 F. 2d 331 (1972)). If the approach described in this paragraph were successful, however, there again would be no dichotomy in the treatment of old and new pesticides.

The system that has been used by EPA so far has the added undesirable feature of placing new pesticides that are barred from registration because of the strict reading of the Delaney Clause at a disadvantage relative to old products that are shown by new data to pose comparable or higher risks. Given the high costs of data development, there is little incentive to develop a new food use pesticide that shows carcinogenic potential—even if the risk it would pose would be minimal, and even if it could replace an old product that poses a higher risk—if initial registration is likely to be barred by Delaney Clause considerations. Thus, the development of new, lower-risk chemicals to replace old, higher-risk pesticides may have been retarded by the Agency's past implementation of the Delaney Clause.

A reassessment of the data in support of the tolerances for a particular pesticide chemical may present another serious concern. The data review by the Agency may reveal, with respect to a chemical that induces cancer in animal studies, that not all the necessary section 408 tolerances are in place. New residue data or a new review of old data may lead the Agency to determine that residues concentrate during processing and that section 408 food additive regulations have not been promulgated to cover this situation. If the Agency cannot promulgate such regulations because of the Delaney Clause ban, these processed commodities would contain illegal residues and would be subject to seizure by FDA. To prevent the presence of these residues in the processed commodities, the Agency would have to attempt to revoke the corresponding FIFRA registrations and FFDCA section 408 tolerances (unless appropriate use restrictions on the pesticide labeling could be developed to prevent the use of the pesticide on commodities destined for processing). Such action could profoundly limit the use of many beneficial pesticide chemicals.

The Agency is facing the issues discussed here with an ever-increasing number of old pesticide chemicals. (Appendix D discusses certain examples of pesticide chemicals currently or recently under review which give an overview of the practical dimensions of the problem.) EPA's decision on whether to attempt to apply the section 409(c) criteria retrospectively under section 409(h) may depend on whether its approach to negligible-risk situations, set forth in unit III of this document, is upheld.

E. Potential for Legislative Solution

The administrative approaches discussed so far in this document would solve only some of the problems the Agency faces in this area. Moreover, implementing those approaches will be controversial and might involve the Agency in protracted litigation that could cause uncertainty and make it difficult for businesses to make plans about pesticide development and pesticide use. A legislative solution, stating clearly that the Agency has the authority to grant food additive regulations for pesticide residues posing at most a negligible risk, clearly would be desirable. Additional legislative changes would be required to allow the Agency to fully reconcile FFDCA and FIFRA. Such legislation ideally would give the EPA the latitude to establish tolerances and food additive regulations for pesticides under a risk/benefit standard compatible with FIFRA, with a definitive statement that clearances for both raw and processed foods are to be established under a risk/benefit approach.

Hearings have been held recently in the House of Representatives on two bills that would address these issues. H.R. 4736, introduced by Congressman Waxman, would provide for the regulation of pesticide residues exclusively under comprehensively rewritten FFDCA section 408. H.R. 4937, introduced by Congressmen Brown and Roberts, would also provide for regulating pesticide residues under section 408, but would make only minor changes in the substance of that section.

[10] FDA appears to interpret the Delaney Clause as applying to food additives unconfirmed prior to any indication of carcinogenic effect for such chemicals. See, for example, the discussion in the proposed FDA determination not to ban the use of ethylene chloride or dichlorvos in animal collars (50 FR 51481, 51488 December 18, 1985).

III. Response to First and Second NAS Recommendations

A. Introduction

The Agency agrees completely with the NAS Report's most important conclusion—that a consistent approach ideally should be followed in the regulation of pesticides for food uses, regardless of whether the pesticides are new or old or whether the foods are raw or processed. As the NAS Report points out, there is no scientific reason to regulate pesticide residues in raw commodities differently from those in processed commodities. For risk assessment purposes, what is critical is not the type of food or feed commodity on which residues are present, but rather the identity and magnitude of the residues in the food and the associated consumption pattern. Likewise, EPA agrees with NAS that pesticides should be regulated consistently whether they are newly developed or have been on the market for many years.

Use of regulatory criteria that reflected those two NAS recommendations would allow the Agency to regulate high-risk pesticides more stringently than those that pose low risks, and permit the registration of new pesticides that offer substantial benefits and pose relatively insignificant risks. Riskier pesticides could then be replaced, and the total dietary risk reduced, with only minor adverse impacts on food production. This approach would be eminently sensible and desirable.

B. Policy for Achieving Greater Consistency in Evaluating Pesticides Under FIFRA and the FFDCA

The Agency believes that the most desirable way to achieve consistency in regulating potentially carcinogenic food-use pesticides would be to evaluate them under the same risk/benefit standard for both registration and tolerance purposes. However, if a section 408 regulation is required for a chemical to which the Delaney Clause applies, EPA believes that current law allows this approach to be used only to the extent that the *de minimis* doctrine allows Delaney Clause considerations to be dismissed. The following Table 1 outlines the regulatory outcomes that EPA would propose in response to various types of findings with respect to the cancer risk posed by new chemicals (or new uses of old chemicals). For clarity, Table 1 ignores non-cancer risks, and also ignores non-dietary cancer risks; in practice EPA would of course consider all risks.[11]

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[11] Discussions in the document of risks resulting from pesticide use are limited to cancer risks due to dietary exposure. It is important for the reader to keep in mind that the Agency's reviews and decisions encompass many other risks as well. Table 1 proceeds from the assumption that all other risk criteria have been satisfied.

TABLE I—REGULATORY OUTCOMES UNDER OLD AND NEW POLICIES

CANCER RISK LEVEL	NEED 409 CLEARANCE?	ACTION UNDER FFDCA (NEW POLICY)	ACTION UNDER FIFRA (NEW POLICY)	COMPARISON TO PRIOR POLICY
No risk	No	Issue 408 tolerance	Register	Same
	Yes	Issue 408, 409 tolerances	Register	Same
Negligible cancer risk	No	Issue 408 tolerance	Register	Same
	Yes	Issue 408 409 tolerance	Register	Changed: under old policy, EPA would have refused to issue 408 issue 409 or register
Greater-than-negligible cancer risk	No	Issue 408 tolerance if benefit outweighs risk	Register if benefit outweighs risk	Same
	Yes	Refuse to issue 409 because of Delaney; refuse to issue 408 because 409 barred	Refuse to register because of lack of needed FFDCA clearances	Same

The following sections discuss how the new approach will affect pesticides in various regulatory categories.

1. Pesticides That Have no Carcinogenic Effect or That Pose Only a Negligible Risk of Carcinogenicity

For pesticides that are the subjects of applications for initial registration or for registration for new uses, and that either do not induce cancer in test animals or pose only a negligible human cancer risk (generally a quantitative risk of 10^{-6} or less), EPA will propose to establish section 408 tolerances and section 409 food additive regulations, where necessary, and thereafter to approve the applications for registration. Very little scrutiny will be given to the benefits of such non-carcinogenic or negligible-risk pesticides. As it has in the past, the Agency will assume the presence of benefits that outweigh the negligible risk. A list of pesticides that are potential candidates for consideration under the negligible-risk approach is provided in Appendix E.

2. Pesticides That Pose a Carcinogenic Risk That Is Greater Than Negligible

Some pesticides may pose a risk of carcinogenicity that is greater than negligible. Generally, such pesticides will be those with quantified upper-bound risks greater than 10^{-6}. (Some pesticides with quantified upper-bound risks greater than 10^{-6} may, however, fall into the negligible risk category for qualitative reasons, as discussed in Unit III B.3.) For pesticide uses not requiring FFDCA section 409 clearances, EPA will continue its current practice of granting FIFRA registrations and the associated FFDCA section 408 tolerances for pesticides whose carcinogenic risk is greater than negligible only if the benefits are determined to outweigh the risks based on a careful scrutiny of the projected benefits compared to other available means of pest control. Benefits evaluations will be performed for such pesticides; the higher the risk, the more thorough the benefits evaluation that will be necessary. The risks of the available alternative pesticides will also be taken into account to determine if the total risk picture could be reduced by allowing the pesticide on the market. This approach accords with past practice.

But for the Delaney Clause, the Agency would propose to apply the same approach to pesticides in this category that require section 409 regulations. However, the Agency is not aware of any legal theory that would allow use of this approach under section 409 as it is currently written.

3. Treatment of Group C Chemicals

As explained in the EPA Guidelines for Carcinogen Risk Assessment, (51 FR 33992, September 24, 1986), there is great variability from one chemical to another in the amount and persuasiveness of evidence tending to show whether or not a chemical may cause cancer in humans. The EPA Guidelines represent the Agency's scheme for categorizing chemicals in terms of the weight of the evidence relating to their potential for human carcinogenicity. In general, the approach of the Guidelines is (1) to place a chemical in one of the groups (A through E) on the basis of the strength of the qualitative evidence of carcinogenicity from human epidemiology studies and animal tests and (2) for those chemicals showing some evidence of carcinogenicity, to set forth separately a quantitative upper bound on the risk that would be posed to humans if the substance in fact were a human carcinogen (see Appendix A). This information is useful to Agency officials and the public, since it provides a way to compare the risks of chemicals and to determine how consistently chemicals are regulated under the several statutory programs administered by the Agency.

The chemicals that pose the greatest difficulty in determining the proper regulatory response generally are those that fall into Group C ("possible human carcinogens") under the Guidelines. A chemical is placed in Group C if there is some evidence of potential carcinogenicity from animal studies, but that evidence is so limited that the chemical cannot be assigned to a higher category.

The Guidelines state that in some cases the Agency will not calculate a quantitative risk ceiling for a Group C chemical. Although it is always possible to calculate a quantitative risk number, the Agency believes that in some cases such quantitative estimates may suggest that the chemical definitely poses a risk to humans, even though in fact the Agency is quite unsure whether the chemical poses human risk. Appendix F lists a number of Group C pesticides and states whether quantitation of risk was deemed appropriate for each.

The Delaney Clause, of course, makes no provision for the weighing of animal-test evidence in terms of its pertinence to human risk. If a chemical is found to induce cancer when ingested by animals or in other appropriate tests, the chemical is deemed "unsafe" under section 409 (unless the *de minimus* doctrine or one of the other previously-discussed exceptions applies). This absolute criterion presents special difficulties with respect to Group C pesticides.

The Agency's treatment for Delaney Clause purposes of a pesticide that falls in Group C will vary. For example, many chemicals fall into Group C merely because the evidence of carcinogenicity comes from only one study. When the evidence from that study clearly indicates a carcinogenic effect in the animal tested, the Agency ordinarily treats the chemical as falling within the "high" end of the C category range and quantifies the risk. A tolerance decision for such a chemical will be based on the quantitative risk number, and the Delaney Clause will be deemed to apply unless the quantitative upper bound risk level is so low that the chemical's risk may be ignored under the *de minimis* doctrine. Conversely, a pesticide may be classified in Group C because the data on whether the chemical is an animal carcinogen are limited or uncertain, e.g., if the data are equivocal, unreliable, or subject to significant doubt, or if only benign tumors occurred. If the Agency determines that the weight of the evidence does not support treating the chemical as an animal carcinogen, the Agency will not treat the chemical as falling within the Delaney Clause bar. The Agency will, of course, in any such determination, set forth the reasons for its judgment. For example, a pesticide may be classified as belonging in Group C because the pesticide is associated with an increase in tumors in only one sex of one species with a lack of a clear dose/response relationship. Assuming that mutagenic data are negative and that structure/activity analysis shows no association with known carcinogens, the Agency generally would consider such a pesticide to be at the "low" end of the Group C range. It is doubtful that the Agency would require a quantification of the carcinogenic risk, and in such a case, the Delaney Clause would not be deemed applicable.

A pesticide may also fall into Group C, not because of any doubt about whether the chemical induces cancer in certain animal tests, but because of uncertainties as to the relevance of the finding to human risk. Reasons for questioning the relevance of the animal data to human risk could include, among other things, know variations in response between the test species and humans, or mechanistic considerations, e.g., a showing that cancer was induced in animals only as a secondary effect of an organic change in the animals induced by very high doses of the chemical and a showing that this effect would not occur at the low levels of human exposure. If a convincing

explanation exists for why the chemical poses no risk of cancer for humans, despite the fact that it has been shown to be an animal carcinogen in a feeding study or other appropriate study and has a theoretical upper bound risk greater than 10^{-6} calculated using a no-threshold model. EPA would propose to treat the chemical as falling into the negligible risk or *de minimis* category for Delaney Clause purposes because of the qualitative reasons for discounting the animal test results as a predictor of human risk. Given the limited knowledge about interspecies response differences and mechanisms of action for cancer, EPA anticipates that very few pesticides would qualify for *de minimis* treatment on this qualitative basis in the near future.

A Group C carcinogen would be regarded as subject to the Delaney Clause if it did not fall into the quantitative or qualitative *de minimis* exception described in this Notice.

The following Table II summarizes the Agency's proposed treatment of Group C carcinogens:

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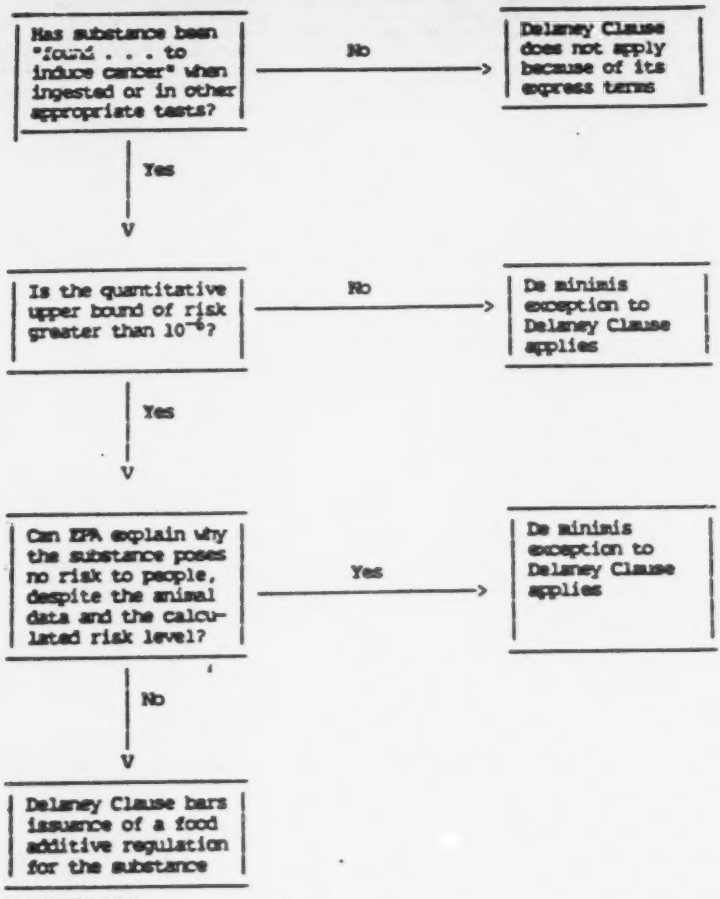
TABLE II—DECISION SCHEME FOR GROUP C CHEMICALS


Has substance been "found . . . to induce cancer" when ingested or in other appropriate tests?
No
Delaney Clause does not apply because of its express terms
Yes
Is the quantitative upper bound of risk greater than 10^{-6}?
No
De minimis exception to Delaney Clause applies
Yes
Can EPA explain why the substance poses no risk to people, despite the animal data and the calculated risk level?
Yes
De minimis exception to Delaney Clause applies
No
Delaney Clause bars issuance of a food additive regulation for the substance

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If the Agency determines that the Delaney Clause does not apply to a pesticide despite limited evidence of the pesticide's oncogenicity, the Agency will examine all toxicological effects of possible concern in determining the limit of acceptable dietary exposure. The Agency will then determine the no-observed-effect level (NOEL) for the most sensitive effect, which in turn will be used in setting the allowable daily intake (ADI) used in calculating the maximum permissible level of residues. (See Appendix A of this document.)

4. Currently Registered Pesticides

EPA's position with respect to currently registered pesticides that pose at most a negligible dietary risk of cancer will parallel that described earlier for proposed new food uses of pesticides, and the regulatory status of registered pesticides that pose such risks will not be changed as a result of this Notice. At the other end of the spectrum, EPA is not changing its policy of attempting to cancel FIFRA registrations and revoke FFDCA clearances for pesticides that pose risks of cancer (or other adverse effects) that outweigh their benefits. Finally, EPA has not determined how to proceed with respect to a pesticide that poses an upper-bound cancer risk that is greater than negligible but that is outweighed by the benefits of the pesticide.

5. Section 18 Exemptions

Section 18 of FIFRA allows EPA to exempt State and Federal agencies from the provisions of the Act if the Agency finds that emergency conditions exist that warrant the exemption. The changes in the Agency's approach to the issuance of food additive regulations already described in this document would result in conforming changes in the implementation of the emergency exemption program. The Agency will apply the negligible risk standard in evaluating emergency exemption requests in a manner similar to other regulatory decisions concerning pesticides which are carcinogens. If associated dietary risks are greater than negligible, the Agency would consider granting the exemption only if the benefits are so great that they outweigh the risks. In this connection, EPA considers, among other things, whether use of the unregistered pesticide would present a lower dietary risk than currently registered alternatives.

Generally, an emergency exemption will not be granted if adequate progress is not being made toward full registration of the pesticide use. In the recent past, the Agency has treated the need for a section 409 tolerance as an automatic bar to a request for an exemption to allow emergency use of a substance that has been found to induce cancer in appropriate animal studies, on the assumption that no section 409 clearance could be issued and accordingly there would be no possibility of registration. In the future, however, the Agency will not consider the need for a 409 tolerance, *per se*, as blocking progress toward registration of such a pesticide. Rather it would consider whether it is likely the pesticide may subsequently be registered according to the policies outlined in this document.

6. Minor Uses

FIFRA directs the Agency to make the registration process more flexible for minor use pesticides. Use of the approaches set forth in this Notice should favor minor uses because they ordinarily involve lower exposures than uses of chemicals on major crops such as wheat or corn.

As with section 18 requests, the need for a section 409 tolerance will no longer be treated as an absolute bar to further consideration of a potentially carcinogenic minor use pesticide. In fact, a number of the pesticides listed in Table V of this document as eligible for reconsideration under the negligible risk standard are intended for minor uses.

IV. Response to the Third Recommendation of the NAS

The NAS has recommended that EPA focus on one major crop at a time and evaluate the risks posed by all the major pesticides registered for that crop rather than evaluating individual pesticides according to current procedures. The Agency's historical approach to reregistration has been to divide pesticides into "clusters" according to their predominant uses. A cluster is a group of chemicals and a group of sites that are closely correlated.

This approach was described in a Federal Register notice (45 FR 75486, November 14, 1980). The clusters were then ranked so that higher priority for review was given to those clusters that have significant use on food crops or were already known to pose special problems. Each individual pesticide chemical within the cluster is then evaluated, one at a time, for all of its uses. Thus, most of the major pesticides used on the 13 "high-consumption" crops identified by the NAS Report have had a recent comprehensive review or are scheduled for one in the near future. Appendix D of this document provides a status report on the Agency's review of 90 chemicals which have been identified as posing certain theoretical risks.

The NAS committee's recommended modification of EPA's approach is designed to ensure that final Agency decisions actually reduce dietary risk, help to preserve benefits of pesticide uses that pose low risks, and help to conserve limited Agency resources. The Agency agrees that this approach has merit in certain cases where the apparent risks are high and sufficient information is available to make comparative risk/benefit assessments. It also allows greater certainty that the final result will improve public health by comparing the risks and the benefits of the major alternatives at the same time.

Given the progress already made in the reregistration process, it is likey that the Agency will have the needed data on the major pesticides at approximately the same time so that comparative assessments can be done, at least for some crop/chemical combinations. During 1988, in fact, the Agency will be able to complete risk assessments for all but one of the six major fungicides (the exception is folpet, whose food use is relatively minor) and to compare the risks and benefits for these chemicals as recommended by the NAS.

There are, however, some problems associated with this approach. Timeliness will certainly be sacrificed in many cases. There will be more data to evaluate, and decisions will be more complex. Comparison of benefits may be difficult: available efficacy data are not designed to permit sophisticated benefits comparisons, and knowledge of all practical alternatives to a given pesticide may be limited and hard for the Agency to identify. For example, a pesticide might be effective for certain uses and yet might never have been registered for those uses because of a registrant's marketing strategy. Finally, it would not be advisable or protective of the public health to delay consideration of significant risks associated with a pesticide just because other pesticides used on the same crops cannot be evaluated at the same time due to the lack of key data. Consequently, the Agency expects to continue with its basic reregistration scheme for scheduling initial Registration Standards. However, adjustments will be made to allow consideration of alternatives whenever sufficient information is available and it appears to improve our ability to focus on high risk chemical/crop combinations.

Because of the Agency's basic priority scheme for Registration Standards, complete data bases for pesticides used on similar crops should be available at

roughly the same time, as in the case with the fungicides discussed in Appendix D. The sophistication of the comparative analyses may vary significantly, however, depending on the level of risk associated with the pesticide under review. In the case of cyanazine, for example, the final decision document discusses the known effects and the regulatory status of major alternatives briefly, but does not provide an extensive analysis because the Agency had concluded that the continued use of cyanazine did not pose unreasonable risks. It is likely, nevertheless, that the Agency will find it increasingly possible to make critical comparisons of pesticides which may substitute for each other.

V. Response to the Fourth Recommendation of the NAS

EPA is taking steps to implement the NAS recommendation to develop improved tools and methods to estimate more systematically the overall impact of prospective regulatory actions on health, the environment, and food production. A major new analytical tool that allows the Agency greater sophistication in the assessment of dietary risk is the computerized Tolerance Assessment System (TAS). TAS contains information on toxicology and residue data for particular pesticides, as well as food consumption information. Consumption information for various foods is based on a 1977–1978 nationwide survey of food consumption for different subgroups conducted by the U.S. Department of Agriculture (USDA). The TAS can be used to estimate dietary levels of pesticide residues for the average individual, as well as for 22 population subgroups, including various age and ethnic groups, infants, pregnant women, and nursing mothers. The system can also be used to differentiate overall consumption patterns by season and by region.

One option offered by the TAS is the calculation of separate TMRCs (Theoretical Maximum Residue Contribution, see Appendix A) for each of the 22 subgroups, based on the assumption that residues will be present at tolerance level and that 100 percent of the crop is treated. Alternatively, the TAS may be used to calculate an "Anticipated Residue Contribution" (ARC) where verifiable data are available on the actual distribution of residues on treated crops, the dissipation or concentration of residues during the storage, transport, and processing of food commodities, and/or the percentage of the total crop actually treated with a pesticide.

Since 1986, the TAS has been used to determine if there are particular dietary concerns for pesticides undergoing reevaluation in the Registration Standard Process, for new chemicals and new uses of old chemicals, and for any other pesticide for which the Agency has a special dietary concern.

To solicit guidance on the scientific criteria that EPA should consider in developing its policy regarding the use of the TAS, the Agency presented a paper entitled "Briefing Paper on the Tolerance Assessment System (TAS) for Presentation to the FIFRA Science Advisory Panel" to that Panel in March 1987 to address a number of specific issues. A copy of that paper and the Report of SAP Recommendations is available on request from the Office of Pesticide Programs. In particular, the Agency requested advice on the scientific criteria the Agency should consider for the use of population subgroups in a dietary exposure analysis, and for the use of percentiles of exposure within a particular population in estimations of dietary risk. The Agency also asked the Panel to address the appropriate margins of safety which the Agency should use for determining acceptable exposures for subgroups or percentiles of exposure within a subgroup. Finally, the Agency requested guidance on the scientific criteria that should be used in identifying appropriate residue levels for use in dietary exposure estimations, and on data presentation.

In response, the SAP noted that the TAS will enable the Agency to predict exposure levels for population subgroups with far greater precision than the current system and thus represents an improved approach. On the issue of the appropriate use of population subgroups, the Panel, noting that the focus of the TAS is on exposure rather than on toxicity, commented that calculations based on body weight, will tend to overstate the risk to infants where there is no toxicological basis for increased susceptibility. To correct for this factor, the Panel recommended that the Agency explore the use of body surface rather than body weight as a basis for comparison. On the safety factor issue, the Panel did not recommend any changes to the traditionally-used one-hundred fold safety factor. The Panel also suggested that the use of a controlled field study would be more likely to provide useful data for the TAS than monitoring data. Finally, the Panel recommended that data should be presented in such a way as to indicate the reliance of the approach on exposure, rather than on toxicity, and the Agency should indicate how relevance, biological significance, and other issues could be introduced into the process. The Agency will work to refine the TAS, as recommended by the Panel, and will seek to develop additional tools and methods to improve its risk/benefit assessment capabilities.

VI. Related Agency Activities

The Agency is working on a number of other initiatives and program improvements which are related to the issues discussed here.

A. FFDCA Section 408/409 Procedural Rules

The Agency has made considerable progress in developing consistent procedural rules pertaining to section 408 and 409 tolerances. Elsewhere in this issue of the Federal Register, the Agency is proposing new procedural rules for establishing, modifying, and revoking section 409 food additive regulations, as well as procedural rules governing the filing of objections, requests for hearings, and the holding of hearings under sections 408 and 409. These proposed rules not only will modernize out-of-date hearing rules, but also will restate and update practices that have not necessarily been codified. The next step in the regulatory process will be to expand the regulations to include [1] substantive interpretations and criteria for determining when tolerances and food additive regulations are required and what data are required in support of them and [2] the criteria and assumptions to be used by EPA in determining whether a tolerance or food additive regulation should be established, modified or revoked.

B. Encouraging Safer Pesticides

The Agency plans to take steps to encourage the development of safer pesticides. The Agency expects to publish a Federal Register notice detailing this plan in the near future.

C. Promoting Innovation in Pest Control

Despite gaps in current data bases, there are indications that human health and/or environmental risks exist for many currently registered nematicides and fungicides. In the case of nonfumigant nematicides, product efficacy depends largely on solubility. Solubility, however, increases soil mobility, giving rise to concern regarding ground and surface water contamination. Certain of the fumigant nematicides also are currently under Agency scrutiny because of potential chronic risks which may be incurred by workers. Of the registered fungicides, 12

are currently undergoing Special Review, and additional classes of fungicides may be placed in Special Review in the near future.

The Agency is working with the Agricultural Research Service and the Cooperative State Research Service to focus USDA research efforts on development of alternative controls for nematodes and plant disease. The Agency has identified a particular need for alternative controls for nematodes on citrus and potatoes and for plant diseases on tomatoes, grapes, leafy vegetables, and pome fruits. The Agency is also considering what incentives can be introduced into the registration process to encourage development of alternative controls. These may include waivers of tolerance fees and registration fees for new pesticides that fall into specified categories for which alternative controls are desirable.

The agency has also joined with USDA, FDA, and private industry to establish a National Pest Management Task Force. The Task Force will identify those pests of economic significance for which effective chemical controls are no longer available or for which little or no research or registration effort is underway. The Task Force will develop, in conjunction with member agencies and private associations, mechanisms fostering the development of acceptable control technologies.

D. Revision of Product Performance Guidelines

To improve the efficacy data base, the Agency is in the process of revising its Product Performance Guidelines to require the development of "comparative product performance data." In the past, product performance data requirements have concentrated on efficacy data that demonstrate how well a pesticide controls the pests listed on the label. The proposed revisions will require that registrants develop and maintain data which will provide information on performance of a pesticide compared to alternative pesticides, non-chemical techniques, and untreated controls.

E. Updating Food Consumption Data and Other TAS Improvements

Resources permitting, EPA hopes to update the food consumption data as part of our overall effort to implement TAS fully. Results of the latest USDA dietary survey should start coming in later this year, and the Agency plans to begin updating the TAS data in 1989. Subsequently, EPA hopes to update TAS every 10 years as results of a new USDA survey become available. The Agency also hopes to be able to enhance the analytical capabilities of TAS and to develop statistical guidelines and computer support for the incorporation of more accurate anticipated residue data based on actual residue studies.

F. Updating Animal Feed Data

Like human food consumption estimates, animal food consumption estimates also need updating. The Agency is currently working on a project to determine whether by-products from food processing plants are significant components of animal feeds. Once these significant feed items are identified, percent of diet figures for these new feed items will be determined.

G. Guidelines and Protocol Improvements

To provide for improved data for use in risk assessments, the Agency is developing guidelines and standard evaluation procedures for the use of registrants and food producers in the generation and submission of data to show actual pesticide residues in food. The Agency will also be working with the food industry to develop protocols for processing studies designed to show what happens to pesticide residues during processing.

H. Reclassification of Raw Versus Processed Commodities

The Agency intends to develop new criteria for classification of commodities as raw or processed in order to update and eliminate inconsistent 408/409 commodity classifications.

I. Factoring in Drinking Water Exposure to Pesticides

The Agency is concerned about human intake of pesticides via routes other than food, particularly drinking water. Historically, the Agency has based its decisions on tolerances only on dietary exposure from foods treated with pesticides. More recently the Office of Pesticides Programs (OPP) and the Office of Drinking Water (ODW) have begun focusing on drinking water as a potential source of pesticide residues in the diet. The Agency has recently made significant progress in its efforts to integrate activities of OPP and ODW with respect to pesticides in groundwater. All Health Advisories for pesticides in drinking water are now developed jointly by ODW and OPP, using the same data base and the same reference dose.

As a part of EPA's implementation of its Agricultural Chemicals in Groundwater Strategy, the Agency will be considering the extent to which pesticide residues in drinking water are a significant factor in dietary exposure to pesticide residues. This may be difficult in some cases, but is necessary in order to get a more complete picture of exposure. In cases where pesticides do reach drinking water supplies, it is necessary to factor this exposure into tolerance decisions.

For example, exposure to aldicarb through drinking water as a result of its presence in groundwater is being considered in the tolerance assessment in the special review of aldicarb. This is a case in which the data are available, and it is clear that drinking water is a potential route of exposure.

VII. Conclusion

In conclusion, the Agency believes that he recommendations of the NAS offer the Agency very useful guidance in improving and refining the process of evaluating pesticides for registration and tolerance purposes. Consistency between the criteria EPA uses in registering pesticides under FIFRA and in setting tolerances for pesticide residues on food under sections 408 and 409 of the FFDCA is a clearly desirable goal. A negligible risk approach to the pesticide regulatory process would allow the Agency to move in the direction of greater consistency, and allow the registration of new pesticides that pose lower risks than certain currently registered products.

The Agency also believes it would be desirable to have the authority to review all food additive regulations, as well as tolerances and registration actions, under a risk/benefit standard. Only by using a risk/benefit standard for all pesticide decisions will the Agency be able to achieve real consistency, and have the latitude to properly exercise its judgment based on a consideration of all relevant factors. Such an approach, over the long run, will be most likely to reduce the total risk attributable to pesticide use. As discussed in this document, the Agency cannot fully implement this goal without legislative change.

Nevertheless, the Agency will propose to follow the negligible-risk approach to the extent possible in future rulemakings on individual pesticides.

With regard to the other recommendations of the NAS, the Agency is focusing its energies on reviewing chemicals under a prioritization scheme in order to reduce risks attributable to pesticide use. Finally, the Agency is engaged in developing tools such as the Tolerance Assessment System to refine its ability to make regulatory decisions.

Dated: October 11, 1988.

Victor J. Kimm,

Acting Assistant Administrator, Office of Pesticides and Toxic Substances.

Appendix A—Procedures Followed by the Agency in Determining Allowable Residue Levels for Tolerances and Food Additive Regulations

In setting tolerances, EPA reviews residue chemistry data and toxicology data. The required data are essentially the same as those necessary to support the registration of a pesticide product used on food. To be acceptable, a tolerance level must be both high enough to cover residues likely to be left when the pesticide is used in accordance with its labeling, and low enough to be safe.

The Agency estimates the level of daily exposure which is not expected to cause appreciable risks during the human lifetime. With regard to risks other than cancer, this level is called the Acceptable Daily Intake (ADI) or Reference Dose (RfD). The ADI is calculated by dividing the no-observed effect level (NOEL) (the dosage level at which any adverse effects observed at higher dose levels are absent) from the most sensitive test showing adverse effects by an appropriate safety factor. This calculation is based on the concept that the risks of concern other than cancer are threshold effects—i.e., below the ADI there will be no adverse effect.

EPA also calculates the theoretical maximum residue contribution (TMRC), which represents the maximum amount of residue of a pesticide which a typical human could ingest by consuming food that bears the maximum level of the residue allowable under all existing and proposed tolerances. The TMRC is calculated by multiplying the tolerance level for each food by the amount of that in the typical American diet (according to available statistics on food consumption patterns) and totalling the values for all foods which may bear residues of that pesticide.

The TMRC is then compared with the ADI, and the tolerance is established (assuming no other concerns) if the TMRC is less than the ADI. A tolerance may be established in certain situations where the TMRC is higher than the ADI if residue data establish that the actual human exposure is not likely to exceed the ADI. For pesticides which may induce cancer, in addition to performing the ADI calculations discussed above for the effects of concern other than cancer, the Agency usually performs a quantitative risk assessment for the cancer risk. Cancer ordinarily is treated as a non-threshold effect, because of a lack of evidence to refute the assumption that the carcinogenic response in humans to low doses is approximately proportional to the response in animals to high dose. Thus, some risk presumptively could result even at very low levels of exposure.

EPA's current carcinogenicity testing scheme requires the use of several test doses (up to a level at or near the maximum tolerated dose) in at least two animal species, in order to magnify the likelihood of detection of a carcinogenic response in an economical, practically-sized animal test population (50 animals per sex per dose level) animal test population. At the present time, there is not better way to assess practically the potential carcinogenicity of a pesticide to which the entire U.S. population may be exposed. The animal data, and any available human epidemiology data, are assessed in accordance with EPA's "Cancer Assessment Guildelines, designed for use by all Agency programs in implementing a number of statutes designed to protect the public health, provide a qualitative classification scheme regarding human carcinogenicity based on a weight-of-the-evedence analysis of the available data. Chemicals are classified into five groups, as follows:

1. Group A

Human Carcinogen: (Sufficient evidence of cancer causality from human epidemiologic studies).

2. Group B

Probable Human Carcinogen B1 limited evidence of carcinogenicity from human epidemiologic studies B2 sufficient evidence of carcinogenicity from animal studies.

3. Group C

Possible Human Carcinogen: Limited evidence of carcinogenicity in animals in the absence of human data, including malignant tumor response in a single well-conducted experiment not meeting conditions for sufficient evidence, tumor responses of marginal statistical significance in studies having inadequate design or reporting, benign tumors where short-term mutagenicity tests are negative, and responses of marginal statistical significance in a tissue with high background rate.

4. Group D

Not classifiable as to Human Carcinogenicity: Either inadequate evidence of carcinogenicity or absence of data.

5. Group E

Evidence of Non-Carcinogenicity for Humans: No evidence of carcinogenicity in at least two adequate animal tests in different species or in both adequate epidemiologic and animal studies.

A weight-of-the-evidence determination may involve consideration of, among other things, (1) the particular bioassay test system(s) used, (2) the evaluation of the histopathological and other results of the test(s), (3) the weight to be given to benign tumors, (4) mechanistic considerations, e.g., a situation where the chemical itself does not cause the tumor, but rather the effect the chemical causes at high doses of administration is the tumor-causing agent, and this effect would not occur at the lower doses of human exposure, and (5) the extent to which the overall quality and conduct of the tests accords with good laboratory practices.

Quantitative risk assessments are routinely performed for Category A and B carcinogens. In the case of pesticides classified as Category C, the Agency decides on a case-by-case basis whether the qualitative evidence is sufficient to warrant a quantitative risk assessment, bearing in mind the possibility that publishing a risk number may create in the public mind an assumption of the reality of a risk to humans that is not supported by the qualitative data from animal studies.

To estimate the cancer risk posed by a pesticide from animal data, the Agency typically uses the linearized multistage model to extrapolate from the results seen at the high doses of the animal study to predict worst case risks at the much lower levels of estimated or actual human exposure. Using this model, a potency factor (Q_1^*, called the "Q-star") is calculated from the 95 percent confidence limit of the slope of the linearized portion of the dose response curve. This potency factor represents a plausible, statistically-derived upper limit to the carcinogenic potency of the potential carcinogen at doses relevant to human exposure, and when multiplied by human exposure, yields an upper bound estimate of the risk. Such an estimate does not represent the actual risk, which may, in fact, be considerably lower or even as low as zero. Estimates of the upper limit on lifetime dietary risk from consumption of residues of a carcinogenic pesticide are calculated by multiplying the Q_1^* by the average human dietary exposure, using food factors derived from USDA data on food consumption patterns. Unless data are available on the actual level of residues in particular food commodities, a worst case risk will be calculated based on the assumption that all treated food bears

residues at the tolerance level and that 100 percent of the crops are treated.

EPA's current method of deriving these worst-case risk estimates for a carcinogenic chemical from animal data is based on somewhat more conservative premises than the approach of FDA. FDA assumes that humans and animals are equally sensitive to the test chemical on an equivalent body weight basis. EPA, on the other hand, bases its assessment on the premise that different sized animals are not equally sensitive to equal concentrations of a chemical, and makes a surface area adjustment to account for this difference.[1] The effect of this adjustment is to increase the estimate of human risk by about thirteen fold where data are derived from mice, and about 6½ fold when the data source is the rat as the test animal. Accordingly, EPA's risk numbers represent about an order of magnitude of risk greater than would be calculated using FDA methodology.

Appendix B—Food Use Pesticides With Evidence of Carcinogenicity

Active Ingredient	Group [1]	408 Tolerance food	408 Tolerance feed	Needs [2] 408 tolerance
1,3-dichloropropene [11]	B2			
2,4-D	D	x	x	
Acephate	C	x	x	
Aniline	B2			x
Azinphos [3]	B2			x
Azide (Reactyl 40)	C			
Azinphos	B2			
Amitraz	C			x
Arsenic acid (orthoarsenic acid)	A			
Asulam	C			
Atrazine	C			x
Azinphos-methyl	D			x
Benomyl [4]	C	x	p	
Bitertinol [4]	C			
Bromacil				
Calcium arsenate				
Captafol	B2			
Captan [4]	B2	x	x	
Chlordimeform & hydrochloride	B2			
Chlorobenzilate				
Chlorothalonil	B2			
Copper arsenate				
Cypermethrin				
Cyromazine [4]			c	
Dameside [4]	B2	x	x	
Dalapon				
Diamide [4]		x	x	
Dichlorvos (DDVP)	B2	x		
Dicofol methyl				
Dioxin	B2	x		
Diphenylamine (Harvest)	C			x
Dinoseb	C			
EDB	B2			
Ethalfluralin			x	
Ethylene oxide [1]		x		
Folpet	B2			
Gamma	C	x	x	
Glyphosate	D	x	x	
Lindane [1]	B2			x
Lead arsenate				
Linuron	D			x
Linuron [1]	C			
Maneb [1] [2]	B2	x	x	
Magnesium arsenate				
Metiram [1]	B2			x
Methanearsonic acid			x	
Methidathion	C			x
Methomyl [4]				x
Metiram [1]	B2			
Metolachlor	C			
Oryzalin	C	x		
Oxadiazon	C			
Oxyfluorfen				
Paraquat	E	x	x	
Parathion	C			
PCNB	D			
Quinomethionate				
Pyrethrins				x
Resmethrin	C	x		
Propachlor	C			
Propazine	C			
Propoxur (baygon) [4]	C			
Pyrethrins [4]	C			
Sodium arsenate				
Sodium arsenite				
Terbutryn	C	x		
Tetrachlorvinphos				
Thiabendazole [4]				x
Thiophanate methyl [4]				x
Toxaphene			x	
Trichlorfon	C			
Trifluralin	C	x		
Zineb [1]	B2			

[1] Classification in accordance with EPA's Cancer Assessment Guidelines (see Appendix A) for those chemicals for which a weight-of-the-evidence determination has been made.

[2] Chemical has recently been determined to require a 408 tolerance.

[3] Registered uses (formerly not considered to be food uses) which have recently been defined as food uses.

[4] Included due to potentially oncogenic metabolite.

[5] Recently added to list because of newly registered food uses.

[6] Currently in Special Review for dietary concerns.

[7] Included because a contaminant is an oncogen.

Appendix C—Active Ingredients for Which Registration Standards Have Been Issued or are Scheduled for Next Year

Active ingredient	Calendar year of issue
4-aminopyridine	1990
Acephate	1987
ADBAC	1988
Alachlor	1984
Aldicarb	1984
Aldrin	1988
Alkyl (fossil) dimethyl benzyl ammonium chloride	1990
	1988
Ametryn	1987
Amitraz	1984
Ammonium sulfamate	1991
	1989
Anilazine	1993
Arsenic acid (orthoarsenic acid)	1988
Asbestos	1990
Asulam	1988
Atrazine	1990
	1988
Azinphos-methyl	1988
Bacillus thuringiensis	1988
Barium metaborate	1993
Bendiocarb	1987
Benefin	1988
Benomyl	1987
Bensulide/sodium bensulide	1988
Bitertan	1991
Bitertan (DPX)	1988
Bromacil	1988
BT (Bt-2)	1991
Boron (incl. borax & boric acid)	1993
Bromacil	1992
	1988
Butenyl	1988
Butoxypolypropylene	1991
Butylate	1990
	1988
Captafol	1994
Captan	1994
Carbaryl	1994
	1988
Carbofuran	1994
Carbophenothion	1994
Carbosulfan	1991
Chloramben	1990
	1988
Chlordane	1988
Chlorobenzilate hydrochloride	1988
Chloroneb/ane	1993
	1988

* updated 3/13/90

Active ingredient	Calendar year of issue
Chlorneb	1990
	[4] 1989
Chloropicrin	1989
Chloroxuron	1982
Chlorpropham	1987
Chlorothalonil	1984
	[3] 1988
Chlorpyrifos	1984
	[1] 1989
Chlorsulfuron	1982
Chromated arsenicals	1984
Coal tar / creosote	1986
Copper chloride / hydrate	1987
Copper sulfate	1986
Coumaphos	1981
	[1] 1989
Cryolite	1983
	[2] 1988
Cyanazine	1984
Cycloate	1989
Cyclohexamide	1982
Cyhexatin	1985
2,4-D	1988
2,4-DB	1988
2,4-DP	1988
Dacthal	1988
Dazomet	1987
Demeticide	1984
DCNA	1983
Diallate	1980
Dameton	1985
Diazinon	1981
Dicamba	1983
3,5-dibromosalicylanilide	1988
Dichlobenil	1985
	[4] 1990
Dichlone	1987
1,3-dichloropropene	1981
Dichlorvos (DDVP)	1986
Dicrotophos	1987
Diethylcarbamazine	1982
Diflubenzuron	1988
Dimethoate	1983
	[1] 1989
Dinoseb	1983
Dinocap	1989
Diphenamid	1987
Diphenatrile	1986
Disulfoton	1985
Diuron	1983
Dodine	1987
Endosulfan	1982
EPN	1987
EPTC	1983
	[4] 1989
Ethephon	1988
Ethion	1982
	[2] 1988
Ethoprop	1983
	[1] 1984
Ethylan	1981
Ethyl parathion	1986
2-ethyl-1,3-hexanediol	1981
Fenamiphos	1987
Fenaminosulf	1982
Fenbutatin	1987
Fensulfothion	1982
Fenthion	1982
Fluchloralin	1985
Fluometuron	1985
Folpet	1987
Fonofos	1984
Formaldehyde	1982
Formetanate hydrochloride	1983
	[4] 1989
Fumarin	1982
Glyphosate	1986

Active ingredient	Calendar year of issue
Halofos NPV	1984
Heptachlor	1986
Hexazinone	1982
	[1] 1988
Isovaluronate	1987
Isopropam	1981
Lindane	1985
Linuron	1984
MCPA	1982
	[1] 1988
MCPB	1989
Magnesium & aluminum phosphide	1986
Malathion	1988
Maleic hydrazide	1988
Mancozeb	1987
Maneb	1988
Mecoprop	1989
Methiocarb	1987
Metalaxyl	1981
	[1] 1986
Metaldehyde	1983
Methamidophos	1982
Methazthion	1981
	[1] 1988
Methomyl	1982
	[1] 1988
Methoprene	1982
Methoxychlor	1989
Methyl bromide	1986
Methyl parathion	1986
Methylene bis thiocyanate	1983
Mevinphos	1988
Metolachlor	1980
	[1] 1987
Metribuzin	1985
Monophos	1988
Monosodium methane arsonate	1985
Monuron	1983
Monuron TCA	1983
Nabam	1987
Naled	1983
Naphazoline	1989
Naphthalene	1981
Naphthalene acetic acid & salts	1981
Naptalam	1985
Nitrapyrin	1984
Norflurazon	1984
	[1] 1989
OBPA	1981
O-phenylphenol	1988
Oryzalin	1987
Oxamyl	1987
Oxydemeton methyl	1987
Oxytetracycline	1988
Paraquat	1987
PCNB (pentachloronitrobenzene)	1987
Pendimethalin	1986
Perfluidone	1986
Permethrin	1987
Phorate	1984
Phosfon (EBP)	1988
Phosphine	1981
	[4] 1987
Phosmet	1986
Phosphamidon	1987
Picloram	1986
	[4] 1988
Piperonyl butoxide	1989
Potassium bromide	1984
Potassium pentachlorophenate	1985
Profenofos	1987
Prometon	1986
Propachlor	1986
Propanil	1987
Propargite	1986
Propazine	1989
Propham	1987
Pyrethrins	1988
Resmethrin	1988

Active ingredient	Calendar year of issue
Simazine	1984
	[1] 1989
Sodium & calcium hypochlorite	1988
Sodium arsenite	1985
Streptomycin	1988
Sulfur	1982
Sulfuryl fluoride	1985
Sulfoxide	1988
Sulprofos	1981
Surfynol	1987
Tebuthiuron	1987
Temephos	1981
Terbacil	1982
	[1] 1988
Terbufos	1983
Terbutryn	1986
Terrazole	1980
	[1] 1989
Tetrachlorvinphos	1988
Thiophanate ethyl	1985
Thiophanate methyl	1988
Thiram	1984
TPTH	1984
Triallate	1984
Trifluralin	1987
Triforine	1985
Vendex	1987
Warfarin	1981
	[1] 1988
Zinc phosphide	1982

[1] Second round of review of the earlier registration standards.

Appendix D—Examples of Pesticide Chemicals With Tolerance Issues Currently or Recently Under Review

1. *Benomyl*

Benomyl is a broad spectrum systemic fungicide that controls a wide variety of plant diseases in field and vegetable crops, rice, tree fruit and nut crops, greenhouse, ornamentals, and turf sites. It is also used as a postharvest dip for fruits. In the Registration Standard issued for benomyl on March 31, 1986, the Agency concluded that benomyl and its major metabolite, 4-methyl benzimidazole carbamate (MBC), were possible human carcinogens (Group C), based on a significant increase in hepatocellular carcinomas in closely related strains of mice. Based on the established tolerances and the percent of crop treated, the Agency estimated any potential oncogenic risk from dietary exposure to be in the range of 10^{-5}. The Agency noted, however, that this quantitative assessment should not be accorded much weight since the evidence for oncogenicity is limited, but could be taken to represent a worst-case upper limit for risk. The Registration Standard also reassessed the residue data base supporting the established tolerance and food additive regulations for benomyl and concluded that additional data were required to fill the identified data gaps. A conclusion was also reached that additional food

additive regulations under section 409 may be required to cover residues in the processed fractions of citrus, tomatoes, grapes, and soybeans.

The additional residue data required by the Standard were received in the summer of 1987 and are under review. When general metabolism data (due July 1989) are received, EPA will be able to complete the tolerance reassessment for benomyl.

If the new data indicate that additional section 408 regulations are necessary, the Agency could establish such regulations under a de minimis approach if weight-of-the-evidence considerations lead to a conclusion that the risk to humans is negligible.

2. Captafol

Captafol, which was originally registered in 1962, is used as a fungicide on various vegetable and fruit crops. The Registration Standard for captafol, completed in September 1984, estimated a dietary risk of 10^{-6} based on tolerance levels, and required registrants to produce data on actual residues in food crops and additional oncogenicity data. A Special Review was also initiated. In early 1987, EPA classified captafol as a B2 (probable human) oncogen. The major registrant, Chevron Chemical Company, voluntarily cancelled its captafol registrations in March 1987. Formulators followed suit the next month. On August 22, 1988, the Agency terminated the Special Review because all registrations of captafol products had been cancelled. Also, the Agency plans to initiate action during 1989 to revoke the remaining tolerances for captafol.

3. Captan

Captan [N-trichloromethylthio-4-cyclohexane-1,2-dicarboximide] is a widely used agricultural fungicide, currently registered for use on a number of fruits and vegetables, small grains, cotton, grasses, flowers, and numerous household uses. The chemical has been the subject of a recent Registration Standard (issued in March 1986) and a Special Review. The Agency has found that the dietary intake of captan resulted in an increased incidence of uncommon adenomas and adenocarcinomas of the upper gastrointestinal tract in the Charles River CD–1 mouse, an increased incidence of these GI tumors in B6C3F1 mice, and a small dose-related increased incidence of kidney tumors in Charles River CD–1 rats. The Agency also noted positive mutagenic activity in gene mutation and chromosomal aberration assays, and a structural relationship to other compounds that demonstrated oncogenic effects.

In the Standard, the Agency requested residue data, including field trials to generate data for raw agricultural commodities treated at the maximum permitted rate, and studies to show the effect of washing, peeling, cooking, and processing on residue levels. Section 408 tolerances are currently established for a number of commodities which are subjected to processing, namely potatoes, soybeans, tomatoes, oranges, grapes, sweet corn, cottonseed, and pineapples. Section 409 tolerances for captan exist for washed raisins at 50 ppm (21 CFR 193.40; 21 CFR 193.40 redesignated as 40 CFR 185.500 at 53 FR 24666, June 29, 1988) and detreated corn seed at 100 ppm (21 CFR 561.65; 21 CFR 561.65 redesignated as 40 CFR 186.500 at 53 FR 24668, June 29, 1988). However, the 409 tolerance for detreated corn seed is in the process of being revoked for failure to submit supporting data. Section 409 tolerances must be set for some commodities, such as dried prunes and dry apple pomace.

In the Preliminary Determination of the Special Review, issued on June 2, 1985, the Agency determined that the dietary risk could be as high as 10^{-6} based on the assumption that residues are present at tolerance levels. The new data will allow the Agency to refine its risk assessment, and determine whether the currently established tolerances and food additive regulations should be revoked.

4. Chlordimeform

Chlordimeform was previously registered for a number of fruit and vegetable insecticide uses; however, most food uses were withdrawn by the registrants in 1978 because preliminary results of a mouse study suggested that chlordimeform caused malignant blood vessel tumors. In 1978, chlordimeform was registered for use on cotton with new restrictions to reduce applicator exposure. A Registration Standard was published for chlordimeform in January 1986, and the chemical has been referred to Special Review because of worker exposure concerns. In conducting the Registration Standard review, the Agency assessed dietary risks from the cotton use, using data on the percent of cotton crops actually treated (between 10 percent and 12 percent), and actual residue data showing chlordimeform residues ranging from 1 to 2 orders of magnitude lower than tolerance levels. Dietary risk from actual residues of chlordimeform occurring in commodities derived from treated cotton was estimated at 10^{-7}. Under the de minimis approach, the food additive regulations on commodities processed from cotton would be retained.

Very recently, the two registrants of the technical product have offered to voluntarily cancel the remaining cotton use, effective within the next year.

5. Chlorothalonil

Chlorothalonil is a fungicide used on numerous crops such as fruits, vegetables, and peanuts, as well as on ornamental turf. The chlorothalonil Registration Standard, issued in September 1984, identified significant data gaps; data have been submitted in response to the requirements set forth in the Standard. Based on such data, EPA has classified chlorothalonil as a B2 (probable human) oncogen. There are no existing 409 food additive regulations for this chemical; residue data required in the Standard will allow the Agency to determine if such regulations are necessary. A Revised Registration Standard and Tolerance Reassessment is scheduled for completion in September 1988. The Agency will assess during the Standard review whether the chemical should be referred to Special Review.

6. EBDCs

The EBDCs (ethylene bisdithiocarbamates) are a group of six fungicides (maneb, mancozeb, amobam, nabam, metiram, and nineb) with a common contaminant, metabolite, and degradation product called ethylene-thiourea (ETU). In 1984, a data call-in imposed extensive data requirements on the registrants of the EBDCs to enable the Agency to perform a comprehensive risk assessment. In response, registrants of amobam cancelled their products, and registrants of nabam deleted all food uses from their labels. Based on data received in response to the data call-in, the Agency has classified ETU and the EBDCs as B2 (probable human) oncogens. As set forth in the Registration Standard issued in April 1987, the dietary risk for mancozeb is estimated to be 10^{-6} based on actual residue data. The total dietary risks resulting from the use of all the EBDCs is likely to be higher. Residue data on maneb and metiram were received in March 1988. For nineb, which represents only 5 percent of total EBDC usage, residue data will not be available until 1991.

All the EBDCs have been placed in Special Review; the Preliminary Determination is scheduled for early 1989. The Agency expects to conduct a risk assessment of the dietary risk posed by these chemicals in the summer and fall of 1988, and then to conduct a comparative risk/benefit assessment of the major fungicides (EBDCs, captan,

chlorothalonil and benomyl) before making a regulatory decision on any one of them. As part of that review, the Agency will also determine what action to take with respect to the existing tolerances and food additive regulations. There are several food additive regulations for mancozeb, and data may indicate the need for such regulations for maneb, metiram, and zineb.

7. Folpet

Folpet is a broad spectrum fungicide which, in the past, has been used on both food and nonfood crops and as an industrial fungicide in the manufacture of coatings and plastics. Non-agricultural uses and home and garden uses have accounted for approximately 66 percent of its total usage. A Registration Standard was issued for folpet in June 1987, and additional residue data (due in 1991) were requested. Currently, all food uses have been suspended for failure to provide data. Current indications are that the only food use which is likely to be supported by data is the use on avocadoes.

The chemical has been classified as a B2 (probable human) oncogen. Prior to the recent suspensions, theoretical dietary risks, based on the assumption that residues would be present at tolerance levels, were in the 10^{-4} range, but the Agency believes that, if actual residue data and percent of crop treated were factored into the risk calculation, risks would be likely to be in the 10^{-6} range. There are no existing section 409 food additive regulations for folpet. If any food uses are reinstituted, and if residue data show that there is a concentration effect during processing, such regulations would be necessary. If the data indicate that the risk is in fact in the 10^{-6} range, the *de minimis* approach could be followed in establishing such regulations.

8. Linuron

Linuron, a herbicide used for pre- and post-emergent control of annual grasses and broadleaf weeds, was initially registered in 1966, and a number of tolerances have been established since then for its use on soybeans, corn, cotton, sorghum, wheat, asparagus, carrots, celery, parsnips, and potatoes. There are no section 409 food or feed additive regulations for linuron. However, the Agency has requested processing data to demonstrate whether the chemical does concentrate in processed commodities.

In 1984, a Registration Standard was issued for linuron and additional residue and chronic effects data required. At the time of the Standard, the Agency estimated dietary oncogenic risk in the range of 10^{-6} (based on residues at tolerance levels with some adjustment for percent of crop treated). However, since the time the Special Review was initiated, the Agency has issued its oncogenicity classification guidelines and has concluded that linuron is a group C (possible human) oncogen. Because only benign tumors are formed, these tumors occur only late in life, and there is no evidence of mutagenic activity, the Agency has concluded that linuron's human carcinogenic potential is low. Therefore the Agency has recently terminated the Special Review based on oncogenicity.

9. Permethrin

Permethrin is an insecticide first registered in 1979 for use on cotton, with a wide variety of other uses, including vegetables and pears (registered in 1982). The toxicology data base for permethrin is complete. The Agency has classified permethrin as a Group C oncogen, based on the induction of lung and liver tumors in female mice. Based on the very weak evidence of oncogenicity observed, the Agency determined that a quantitative risk assessment for this chemical is inappropriate because the likelihood of oncogenic effects in humans from low levels of permethrin is non-existent or extremely low. The Agency has, however, regulated this chemical as a possible oncogen for Delaney Clause purposes, and has declined to set 409 food additive regulations.

A tolerance for tomatoes, a commodity which is usually subject to processing, was established for Florida tomatoes, subject to a restriction that the tomatoes only be used for the fresh market. This approach was believed to be feasible for permethrin because of the unique circumstances of tomato production in Florida, i.e., 98 percent of the tomatoes were for the fresh market, and the limited number of canneries in the area agreed not to process tomatoes into a form which would result in concentrated residues (such as paste, puree, or ketchup). However, the Agency subsequently was informed that a cannery in Florida was processing permethrin-treated tomatoes into puree and paste. This incident demonstrates the impracticality of expecting growers and processors to distinguish between permethrin-treated tomatoes and untreated tomatoes.

In addition, the Agency is still seeking processing data to clarify whether residues will concentrate in any of the other processed commodities produced by Florida canneries. If the Agency were to follow the *de minimis* approach, permethrin would be a potential candidate for section 409 food additive regulations for additional uses in which concentration of the residues occurs during processing.

10. Trifluralin

Trifluralin is a selective preemergent herbicide registered for use on a variety of crops for the control of annual grasses and certain broad leaf weeds. This pesticide has been classified as a Group C carcinogen based on a significant increase in the incidence of malignant tumors of the renal pelvis, of the kidney and thyroid gland of male rats, and in the incidence of combined malignant and benign urinary bladder tumors in female rats at the highest dietary concentration tested. The Agency indicated in its August 1986 Registration Standard that processing data is being required for potatoes, sugar beets, soybeans, citrus fruits, sorghum, barley, corn and wheat grain, alfalfa hay, flax seed, cottonseed, peanuts, spent peppermint and spearmint hay, sugarcane, and sunflower seed. These data could indicate that additional food additive regulations are necessary to support current use patterns. Such regulations could be established under a *de minimis* approach if risks are found to be sufficiently low. Otherwise, if the Agency takes the approach that such regulations would be barred by the Delaney Clause, the corresponding section 408 tolerances might be subject to revocation, thereby eliminating many of the beneficial uses of this pesticide.

Appendix E—Candidates for Negligible Risk Consideration

Chemical	Type	Status	Proposed Use	Group
Alachlor	Fungicide	New Use	Hops	C
Amitraz	Insecticide	New Use	Apples	C
Apollo	Insecticide	New Chemical	Apples	C
Cypermethrin corn	Insecticide	New Uses	Soybeans	C
Dicamba [1]	Herbicide	New Use	Cotton	Not classified

Chemical	Type	Status	Proposed Use	Group
[illegible]	Herbicide	New Use	Wheat	C/D
Harvade	Herbicide	New Use	Sunflowers	C
Methomyl [1]	Insecticide	New Use	Hops	Not classified.
[illegible]	Herbicide	New Uses	Apples, flax, sunflowers	C
Permethrin ssm	Insecticide	New Uses	Soybeans, apples, tomatoes	Treated as C
Savey	Insecticide	New Chemical	Apples	C
Vydat	Herbicide	New Chemical	Soybeans	In review

[1] A nitrosodimethyl contaminant of dicamba is an oncogen.
[2] Acetamide is an oncogen and an animal metabolite of methomyl.

Appendix F Group C Carcinogens' Status Re Risk Quantification

The decision as to whether or not quantification of risk for Group C chemicals is appropriate is subject to change as the Agency analyzes new data or reevaluate existing data. The following lists indicate those chemicals for which, as of August 1988, the Agency has determined a quantified risk number should or should not be used. There are a few other Group C chemicals for which this decision is still pending.

Risk Quantification Deemed Inappropriate

acephate
Aliette (fosetyl al)
amitraz
asulam
benomyl
bifenthrin
cypermethrin
dimethipin (Harvade)
fomesafan
gardona
linuron
methidathion
metolachlor
oryzalin
oxadiazon
parathion
permethion
phosmet
pronamide
propiconazole
triadimenol (Baytan)
tridiphane
trifluralin

[FR Doc. 88-24128 Filed 10-13-88; 8:45 am]
BILLING CODE [illegible]

ATTACHMENT II

PESTICIDE FOOD/FEED ADDITIVE TOLERANCES*
WHICH HAVE BEEN REVOKED

Pesticide/CFR Citation	Revocation Final Rule Published/FR Citation
DBCP [inorganic bromide residues resulting from soil treatment with 1,2-Dibromo-3-chloropropane (DBCP)] [21 CFR 561.260(c)] All tolerances revoked	51 FR 1784 01/15/86
Benzene hexachloride (BHC) [21 CFR 193.35] All tolerances revoked	51 FR 25685 07/16/86
DDT (Dichloro diphenyl trichloroethane) [21 CFR 193.110; 21 CFR 561.120] All tolerances revoked	51 FR 46616 12/24/86
TDE/DDE (Dichloro diphenyl dichloroethane) [21 CFR 193.120; 21 CFR 561.370] All tolerances revoked	51 FR 46616 12/24/86
Carbon tetrachloride [40 CFR 185.3475; 40 CFR 185.3480] All tolerance exemptions revoked	54 FR 6130 02/08/89
Carbon disulfide [40 CFR 185.3475; 40 CFR 185.3480] All tolerance exemptions revoked	54 FR 6130 02/08/89
Ethylene dichloride [40 CFR 185.3475; 40 CFR 185.3480] All tolerance exemptions revoked	54 FR 6130 02/08/89
Daminozide [21 CFR 193.410; 21 CFR 561.360] (dried prunes revoked; tomato byproducts reduced)	52 FR 27542 07/22/89
Chlordimeform [40 CFR 185.750; 40 CFR 186.750] Two tolerances revoked (dried prunes; dried apple pomace)	54 FR 43424 10/25/89
Captan [40 CFR 186.500] Proposed revocation of corn seed	Proposed rule 54 FR 35897 08/30/89

* In most cases, tolerances for residues in raw agricultural commodities were also revoked for the same pesticide.

03/09/90

ATTACHMENT III

PESTICIDE REREGISTRATION PROCESS

	PHASE 1 EPA	PHASE 2 REGISTRANT	PHASE 3 REGISTRANT	PHASE 4 EPA	PHASE 5 EPA
	ISSUE LISTS	RESPOND	SUMMARIZE AND REFORMAT	REVIEW SUBMISSIONS (2 & 3)	REVIEW ALL DATA
		IDENTIFY DATA GAPS	CERTIFY RAW DATA	IDENTIFY DATA GAPS	REREGISTER OR TAKE OTHER ACTION
		AGREE TO FILL GAPS	"FLAG" DATA	PUBLISH DATA GAPS	
		PAY FEE	PAY FEE	ISSUE DCI	
		EPA GUIDELINES 12/24/89			
LIST A:	3/4/89	N/A FEES 7/89	N/A	SECOND ROUND REVIEW	AFTER ALL DATA IN (FOR ALL LISTS) 1 YEAR FOR REVIEW OF DATA
LIST B:	4/24/89	8/24/89	5/24/90	11/24/90	PRODUCT SPECIFIC DATA DUE 8 MOS. LATER
LIST C:	7/24/89	10/24/89	7/24/90	7/24/91	
LIST D:	10/24/89	1/24/90	10/24/90	7/24/92	REVIEW OF PRODUCT SPECIFIC DATA IN 90 DAYS
					REREGISTER PRODUCT WITHIN 6 MONTHS

[OPP-36140; FRL-3190-1]

Inert Ingredients in Pesticide Products; Policy Statement

AGENCY: Environmental Protection Agency (EPA).

ACTION: Notice.

SUMMARY: This notice announces certain policies designed to reduce the potential for adverse effects from the use of pesticide products containing toxic inert ingredients. The agency is encouraging the use of the least toxic inert ingredient available and requiring the development of data necessary to determine the conditions of safe use of products containing toxic inert ingredients. In support of these policies, the Agency has categorized inert ingredients according to toxicity. The Agency will (1) require data and labeling for inert ingredients which have been demonstrated to cause toxic effects; (2) in selected cases, pursue hearings to determine whether such inert ingredients should continue to be permitted in pesticide products; (3) require data on inert ingredients which are similar in chemical structure to chemicals with demonstrated toxic properties, or which have suggestive, but incomplete data on toxicity; and (4) subject all new inert ingredients, both for food and non-food uses, to a minimal data set and scientific review. The Agency is soliciting comments on these policies.

EFFECTIVE DATE: This policy is effective on April 22, 1987, subject to revision if comments received warrant such revision.

ADDRESSES: Three copies of written comments bearing the document control number [OPP-36140] should be submitted, by mail, to:

Information Services Section, Program Management and Support Division (TS-757C), Office of Pesticide Programs, Environmental Protection Agency, 401 M St. SW., Washington, DC 20460.

In person deliver comments to: Rm. 236, CM #2, 1921 Jefferson Davis Highway, Arlington, VA

Information submitted as a comment in response to this notice may be claimed confidential by marking any part or all of that information as "Confidential Business Information" (CBI). Information so marked will not be disclosed except in accordance with procedures set forth in 40 CFR Part 2. A copy of the comment that does not contain CBI must be submitted for inclusion in the public docket. Information not marked confidential will be included in the public docket without prior notice. The public docket is available for public inspection in Room 236 at the address given above, from 8 a.m. to 4 p.m., Monday through Friday, except legal holidays.

FOR FURTHER INFORMATION CONTACT:

Tina Levine, Hazard Evaluation Division (TS-769C), Environmental Protection Agency, 401 M St. SW., Washington, DC 20460. (703-557-0307).

Office location and telephone number: Rm. 708E, CM #2, 1921 Jefferson Davis Highway, Arlington, VA (703-557-0307).

SUPPLEMENTARY INFORMATION: EPA is issuing this notice announcing certain policies regarding inert ingredients in pesticide products.

I. Definitions

1. *Active ingredient.* An ingredient which will prevent, destroy, repel, or mitigate any pest, or will alter the growth or maturation or other behavior of a plant, or cause the leaves or foliage to drop from a plant, or accelerate the drying of plant tissue.

2. *Inert ingredient.* For purposes of this policy, any intentionally added ingredient in a pesticide product which is not pesticidally active. This definition does not include impurities.

3. *Closely similar product.* A pesticide product that (1) contains the same active ingredient(s) in substantially the same percentage(s) as a product already registered, (2) is intended for the same use pattern as the already-registered product, and (3) contains no greater percentage of any List 1 or List 2 inert ingredient than the already-registered product.

II. Background and Legal Authority

A. The Federal Insecticide, Fungicide, and Rodenticide Act.

The Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA), requires that all pesticide products sold or distributed in commerce be registered by the Environmental Protection Agency (EPA or Agency). Prior to the establishment of EPA, the Department of Agriculture (USDA) registered pesticides under FIFRA. Most of the data requirements and regulatory activities under FIFRA have focused on the active ingredient. There are two exceptions to this general policy: (1) A battery of acute toxicity tests on the pesticide formulation, which generally includes both active and inert ingredients, is routinely required for registration of an end-use product; (2) The Agency has imposed certain labeling requirements for hazardous inert ingredients (40 FR 37980, September 28, 1984).

B. Federal Food, Drug, and Cosmetic Act

In addition to its mandate under FIFRA, EPA has authority to regulate pesticide products under the Federal Food, Drug, and Cosmetic Act (FFDCA). Section 408 of FFDCA authorizes EPA to establish tolerances or safe levels of pesticide residues in raw agricultural commodities; section 409 similarly authorizes EPA to issue food additive regulations for pesticide residues in processed foods. Prior to the establishment of the EPA, the Food and Drug Administration (FDA) had the responsibility for establishing tolerances and food additive regulations for pesticide residues.

The FDA has issued several notices explaining its policy with regard to regulation of inert ingredients in pesticides under the FFDCA. In 1961, FDA published a notice in the Federal Register stating that USDA had determined that each component of registered pesticide products, including

the inert ingredients, were pesticide chemicals and thus subject to the requirement of tolerances or exemption under FFDCA (26 FR 10840, November 14, 1961). In 1969, the FDA established a policy regarding data requirements and review procedures for clearance of inert ingredients (34 FR 6041, April 3, 1969). This notice set forth general toxicity data requirements and stated that residue data requirements would depend on the toxicity of the chemical. However, the policy allowed a less formal review process if FDA could conclude that the inert ingredient was generally recognized as safe for the stated purpose. Exemptions from the requirement of a tolerance for inert ingredients have generally occurred through the informal request procedure, rather than the formal petition process required for active ingredients. Inert ingredients exempt from the requirement of a tolerance are codified in 40 CFR 180.1001.

There are currently approximately 1,200 inert ingredients in pesticide formulations. About half of these have been cleared for food use under section 408 or 409 of FFDCA. Many of these chemicals had been approved by the FDA for non-pesticidal use as food additives, for example, as flavorings or in packaging, before they began being used in pesticide formulations. These chemicals were generally exempted from the requirement of a tolerance with little systematic review or screening by the EPA. Inert ingredients in products registered only for non-food uses also have received little scientific review.

III. Development of Regulatory Policy for Inert Ingredients

Because of concern that some inert ingredients in pesticide products might cause adverse effects to humans or the environment, the Agency developed a draft strategy for the regulation of inert ingredients, which was reviewed by the FIFRA Scientific Advisory Panel and was made available to the public in Spring 1986. This Federal Register notice announces the policy of the Agency regarding inert ingredients in pesticide products and is based on the strategy.

EPA has divided the approximately 1,200 intentionally-added inert ingredients currently contained in pesticide products into four toxicity categories:

1. Inerts of toxicological concern (List 1).
2. Potentially toxic inerts/high priority for testing (List 2).
3. Inerts of unknown toxicity (List 3).
4. Inerts of minimal concern (List 4).

EPA has identified about 50 inert ingredients as being of significant toxicological concern. This list was assembled on the basis of known toxicity of the chemical; no consideration was given to the potential for exposure. The criteria used to place chemicals on List 1 were carcinogenicity, adverse reproductive effects, neurotoxicity or other chronic effects, or developmental toxicity (birth defects). These effects must have been demonstrated in laboratory or human studies and the data subject to peer review. The criteria also included documented ecological effects and the potential for bioaccumulation. These criteria and the list itself were reviewed by the FIFRA Scientific Advisory Panel. List 1, inerts of toxicological concern, is as follows:

List 1—Inerts of Toxicological Concern

CAS No.	Chemical name
62-53-3	Aniline.
1332-21-4	Asbestos fiber.
71-43-2	Benzene.
1336-21-6	Ammonium hydroxide.
7664-93-9	Sulfuric acid.
7440-43-9	Cadmium compounds.
75-15-0	Carbon disulfide.
56-23-5	Carbon tetrachloride.
108-90-7	Chlorobenzene.
67-66-3	Chloroform.
50-73-7	DDVP.
106-46-7	p-Dichlorobenzene.
117-81-7	Di-(2-ethyl hexyl) phthalate (DEHP).
57-14-7	1,1-Dimethyl hydrazine.
540-73-8	1,2-Dimethyl hydrazine.
534-52-1	Dinitro-o-cresol.
51-28-5	Dinitrophenol.
123-91-1	Dioxane.
106-89-8	Epichlorohydrin.
110-80-5	Ethanol, 2-ethoxy- (cellosolve).
111-15-9	Ethanol, 2-ethoxy-, acetate.
60-29-7	Ethyl ether.
107-06-2	Ethylene dichloride.
107-21-1	Ethylene glycol monoethyl ether; methyl cellosolve.
140-88-5	Ethyl acrylate.
75-00-3	Ethyl methyl ketone.
78-93-3	Ethyl methyl glycolate.
50-00-0	Formaldehyde.
76-03-9	Hydrocyanic.
110-54-3	n-Hexane.
78-59-1	Isophorone.
7439-92-1	Pb Compounds.
108-94-1	Cyclohexanone.
1191-30-6	Methyl amyl ketone.
591-78-6	Methyl n-butyl ketone.
74-87-3	Methyl chloride.
75-09-2	Methylene chloride.
78-93-3	2-Butanone.
20154-52-3	Naphthenate.
25265-86-4	Dinitrobenzene.
87-86-5	Pentachlorophenol.
127-18-4	Perchloroethylene.
108-95-2	Phenol.
106-50-3	p-Phenylenediamine.
75-97-8	Propylene dichloride (1,2-dichloropropane).
75-56-9	Propylene oxide.
8003-34-7	Pyrethrins and pyrethroids.
81-88-9	Rhodamine B.
10043-01-3	Silicon dichloride.
121-52-2	Silicon tetrachloride.
100-42-5	Styrene.
25471-42-5	Toluene diisocyanate.
79-00-5	1,1,2-Trichloroethane.
52-68-6	Trichlorfon.
79-01-6	Trichloroethylene.
1330-78-5	Tri-o-cresyl phosphate (TOCP).
78-30-8	Tri-o-tolyl phosphate (TOCP).

EPA has further identified about 80 inert ingredients which the Agency believes are potentially toxic and should be assessed for effects of concern (List 2). Many of these inert ingredients are structurally similar to chemicals known to be toxic; some have data suggesting a basis for concern about the toxicity of the chemical. Most of the chemicals on List 2 have been designated for testing through the National Toxicology Program (NTP), the EPA Office of Toxic Substances (OTS) or other regulatory or government bodies. The FIFRA Scientific Advisory Panel has also reviewed this list. Because testing is ongoing for most of chemicals on List 2, it is expected to change periodically. It is the Agency's policy to have all additions, deletions or changes to List 1 or 2 reviewed by the FIFRA Scientific Advisory Panel. List 2, potentially toxic inerts/ high priority for testing, is as follows:

List 2—Potentially Toxic Inerts/High Priority for Testing

CAS No.	Chemical name
95-80-7	Butyl benzyl phthalate
84-74-2	Dibutyl phthalate
84-66-2	Diethyl phthalate
131-11-3	Dimethyl phthalate
117-84-0	Dioctyl phthalate
95-48-7	o-Cresol
1319-77-3	Cresols
95-48-7	o-Cresol
108-39-4	m-Cresol
106-44-5	p-Cresol
108-39-4	m-Cresol
108-95-2	Carbolic acid
95-57-8	o-Chlorophenol
112-34-5	Diethylene glycol mono butyl ether (Butyl carbitol)
111-90-0	Diethylene glycol mono ethyl ether (carbitol)
111-77-3	Diethylene glycol mono methyl ether (methyl carbitol)
34590-94-8	Dipropylene glycol mono methyl ether
111-76-2	2-Butoxy-1-ethanol (ethylene glycol mono butyl ether)
5131-66-8	1-Methoxy-2-propanol (1,2-propylene glycol-1-mono methyl ether)
124-18-3	1-Butoxy-2-propanol
107-98-2	1-Methoxy-2-propanol
25265-71-8	Dipropylene glycol monobutyl ether
25498-49-1	Tripropylene glycol mono methyl ether
577-11-7	Dioctyl sodium sulfosuccinate
141-78-7	Ethyl acetate
108-10-1	Methyl isobutyl ketone
75-52-5	Nitromethane
108-88-3	Toluene
25265-43-1	Tetryl hexane
96-14-7	1,2,3-Benzenetriol
120-32-1	2-Benzyl-4-chlorophenol
75-65-3	Chloroform
95-54-5	p-Chloro-o-toluidine
97-23-4	Dichlorophene
95-13-2	Dimethyl benzidine
108-41-6	Ethyl benzene
140-29-4	Benzeneacetonitrile
74-85-9	Methyl bromide
75-63-8	Chlorotrifluoromethane
75-45-6	Chlorodifluoromethane
75-46-7	Chlorotrifluoromethane
75-37-6	1,1-Difluoroethane
75-68-3	1-Chloro-1,1-difluoroethane
25168-26-3	Isomeric phenols
1338-24-5	Petroleum hydrocarbons
1330-20-7	Xylene
106-42-3	p-Xylene
108-38-3	m-Xylene
75-01-4	Vinyl chloride
75-65-0	Tert-butanol
75-85-4	Amylene
75-45-6	Freon-22
71-55-6	1,1,1-Trichloroethane
540-71-6	Tetrafluoroethane
111-42-2	Diethanolamine
97-00-1	Butyl mercaptan
75-33-2	Ethyl mercaptan

LIST 2—POTENTIALLY TOXIC INERTS/HIGH PRIORITY FOR TESTING—Continued

CAS No.	Chemical name
	[illegible]
95-80-7	[illegible]
95-76-1	[illegible]
626-43-7	[illegible]
554-00-7	[illegible]
608-71-9	[illegible]
608-31-1	[illegible]
101-84-8	[illegible]
76-13-1	[illegible]
76-03-9	[illegible]
76-11-9	[illegible]
76-14-2	[illegible]

Inert ingredients were put on List 4 (minimal hazard or risk) if they were generally regarded as innocuous. These included inert ingredients such as cookie crumbs, corn cobs, and substances "generally recognized as safe (GRAS)" by the FDA (21 CFR Part 182). There are approximately 300 inert ingredients in this category.

An inert ingredient was placed on List 3 if there was no basis for listing it on any of the other three lists. There are approximately 800 inert ingredients in this category.

Lists 3 and 4 are not addressed further in this notice since the Agency will be taking no particular regulatory actions with respect to these inert ingredients at this time. Applications for exemptions from the requirement of tolerances for Lists 3 and 4 inert ingredients are discussed in unit VI.

These lists were developed to establish priorities for regulatory activities related to existing inert ingredients. The Agency intends to focus its initial regulatory efforts on the inerts of toxicological concern. For this reason, the current policy notice is most specific with regard to inert ingredients on List 1. As resources permit, EPA will extend its activities to the other inert ingredients.

IV. Inerts of Toxicological Concern (List 1)

In order to reduce the potential for adverse effects to humans or the environment, it is the policy of the Agency to encourage the use in pesticide products of the least toxic inert ingredients available and to require development of the information necessary to determine the conditions under which various chemicals may be used safely as inert ingredients in pesticide products. In line with this policy, EPA has developed procedures for dealing with new and existing pesticide registrations containing inerts of toxicological concern. It should be noted that the Agency is currently engaged in a comprehensive review of various chlorinated solvents, several of which are on List 1 or List 2. The data gathering described in Section A.3. below will support that effort. As conclusions are made in the Solvents Project, the inerts policy with respect to those substances will be reviewed to see whether adjustments in status would be appropriate. In the meantime, chemicals under review in the Solvents Project are subject to the requirements described below.

A. Existing Registrations

1. *Substitution.* Registrants are encouraged to substitute inert ingredients not included in List 1 or List 2 for inerts of toxicologic concern (List 1) now contained in their products. Registrants electing to substitute should submit a new Confidential Statement of Formula as a proposed amendment to the registration. The revised Confidential Statement of Formula should be sent to: Product Manager, Registration Division (TS–767C), Office of Pesticide Programs, Environmental Protection Agency, 401 M St. SW., Washington, DC 20460.

2. *Labeling.* As an immediate step to inform users and the general public of the presence of an inert of toxicological concern, EPA is directing registrants of each product containing an inert ingredient on List 1 to submit applications (to the product manager at the above address) to amend their registrations to add the following statement to the label:

This product contains the toxic inert ingredient (*name of inert*).

The wording should be placed in close proximity to the ingredients statement in a type size comparable to other front panel text.

Registrants are required to submit the application not later than October 20, 1987. (At the top of each application, please write in bold letters "INERTS".) No pesticide product containing a List 1 inert ingredient may be released for shipment after October 20, 1988 unless the product bears an amended label which complies with the provisions listed above. EPA may initiate cancellation proceedings under section 6(b)(1) of FIFRA for any product registrations containing a List 1 inert ingredient for which an amended label is not submitted in a timely fashion.

3. *Data Requirements.* In addition, any registrant who retains an inert of toxicologic concern in his or her product(s) will be subject to data call-in under section 3(c)(2)(B) of FIFRA. The data requirements will take into consideration the chemical's existing data base and the product's use pattern. Because of the demonstrated biological activity of chemicals on List 1, EPA may require as much data as would be required by 40 CFR Part 158 for an active ingredient. For many of these inert ingredients, adequate toxicity data exist, but additional exposure data would be required. In addition, data on environmental fate, ecological effects and residue chemistry may be required. The Agency intends to issue data call-in letters for this data beginning in April 1987.

4. *Hearings.* For certain inert ingredients on List 1, EPA intends to issue Notices of Intent to Hold a Hearing under FIFRA section 6(b)(2). The purpose of these hearings will be to gather and present information on the risks and benefits of these inert ingredients. Based on the information presented during that hearing EPA will determine whether pesticide products containing a particular inert ingredient on List 1 should be cancelled, be subject to additional restrictions, or be allowed to continue their current registrations without change. Hearings conducted under FIFRA section 6(b)(2) are formal adjudicatory proceedings conducted according to the procedures in 40 CFR Part 164. Evidence is presented under oath by witnesses, who are subject to cross-examination. EPA has the burden of proceeding, but the ultimate burden of proof rests on registrants. Decisions are based only on evidence in the hearing record. The presiding Administrative Law Judge makes an Initial Decision which may be appealed to the Administrator who makes the Final Decision.

EPA expects to issue the first Notice of Intent to Hold a Hearing concerning an inert ingredient on List 1 in 1987. Subsequent notices may cover several List 1 inert ingredients with similar functions in pesticide formulations, e.g. solvents.

5. *Reclassifying Inert Ingredients As Active Ingredients.* The Agency has also identified several inerts of toxicological concern which are present in pesticide formulations to act against some pest, although not necessarily the pest targeted by the formulation. For example, an ingredient may be added to a rodent bait to repel flies. Although these ingredients have traditionally been designated as inert ingredients, EPA believes that they are actually active ingredients. These inert ingredients are formaldehyde, paraformaldehyde, hexachlorophene, 2,2-dichloro vinyl dimethyl phosphate, and the pyrethins/pyrethroids. EPA recently indicated its intent to reclassify formaldehyde and paraformaldehyde as active ingredients when used in pesticide products to prevent microbial damage to such products (52 FR 321,

January 3, 1987). EPA intends to similarly reclassify the other inert ingredients that prevent damage to pesticide formulations by pests as active ingredients in those formulations. This will simplify the process of obtaining data under FIFRA section 3(c)(2)(B).

6. *Revocation of Exemptions from Tolerance.* Any pesticide chemical used on food must have a tolerance or an exemption from the need for a tolerance. If the Agency determines that an inert of toxicological concern is no longer used in any food-use pesticide product, the exemption(s) from the need for a tolerance will be revoked for that inert ingredient. In addition, there may be circumstances in which EPA will replace existing exemptions with finite tolerances. Such action will be taken when the data gathered through the data call-in activities on inerts of toxicological concern enable the Agency to establish a finite tolerance.

B. New Registrations

In general, no new product that contains an inert of toxicological concern will be registered unless the product is closely similar to an existing product, as defined above. In limited circumstances, other products may be registered if review indicates that the risk of unreasonable adverse effects to humans or on the environment will be decreased by such a registration. As specified above, the label of any product containing such an inert ingredient will be required to indicate the presence of the inert ingredient. In addition, the product will be registered conditionally, subject to any data requirements that the Agency imposes on registrants of similar products.

V. Potentially Toxic Inerts/High Priority for Testing

The Agency's goal is to collect enough information on each inert ingredient on List 2 to determine whether further regulatory actions such as those for inerts on List 1 are necessary. In order to make this determination, the Agency is monitoring ongoing testing and gathering existing information on the potential adverse effects of these substances and will require additional testing from industry if it is needed.

A. Existing Registrations

EPA does not plan to issue any specific requirements in the near future for inert ingredients on List 2. If an inert ingredient is moved from List 2 to List 1, as new data or information becomes available, it will become subject to the requirements outlined in Section IV of this notice.

B. New Registrations

Closely similar products containing List 2 inert ingredients will continue to be registered.

Applications for registration of other products (e.g., new uses) containing inert ingredients that are on List 2 will be reviewed on a case-by-case basis. The Agency will consider the current weight-of-evidence with respect to the hazards posed as well as the potential for increased exposure when deciding whether the product meets the standard for registration.

VI. New Inert Ingredients and New Food-Uses of Existing Inerts

Any inert ingredient proposed for use in a pesticide product is considered to be a "new" inert ingredient if it is not currently identified as present in some approved pesticide formulation or has never been in a previously registered product. The minimal data generally required to evaluate the risks posed by the presence of a new inert ingredient in a pesticide product is a subset of the kinds of data typically required for active ingredients under 40 CFR Part 158. A description of the data required and guideline number as listed in 40 CFR Part 158 follows:

DATA REQUIRED TO EVALUATE RISKS POSED BY INERT INGREDIENTS IN PESTICIDE PRODUCTS

	Guideline ref. number 40 CFR Part 158
1. KIND OF DATA REQUIRED:	
Residue Chemistry:	
Description of the pesticide or type of pesticide formulation(s) in which the inert will be used and the maximum percent by weight it can occupy in any formulation	
Description regarding the range of use patterns and range of concentrations of the inert material [1]	171-3
2. KIND OF DATA REQUIRED	
Product Chemistry:	
Description of the chemical or chemical mixture showing structural formula(s)	61-1
Chemical Abstracts Service (CAS) Registry Number and the	61-1
Any technical bulletins available on the inert	
Purpose of inert in pesticide formulation (i.e., solvent emulsifier, etc.)	61-1

DATA REQUIRED TO EVALUATE RISKS POSED BY INERT INGREDIENTS IN PESTICIDE PRODUCTS—Continued

	Guideline ref. number 40 CFR Part 158
Discussion of possible toxic contaminants such as nitrosamines, polynuclear aromatics or dioxins	61-3
Batch analyses [2]	62-1
Density/specific gravity	63-7
Solubility	63-8
Vapor Pressure	63-9
Dissociation Constant	63-10
Octanol/Water Partition Coefficient	63-11
pH	63-12
Toxicology:	
90-day feeding study: rodent and dog [3]	83-1
Subchronic dermal toxicity [4]	83-2, 82-2
Teratology study: rodent	83-3
Gene mutation test	84-2
Structural chromosomal aberration test	84-2
Other genotoxic effects	84-4
3. KIND OF DATA REQUIRED	
Ecotoxicology: [5]	
Acute 96-hr fish LC50 (preferable in rainbow trout or bluegill)	72-1
48-hr LC50 or EC50 in daphnia	72-2
Avian oral LD50 (preferably in mallard or bobwhite)	71-1
8-day avian dietary LC50 (preferable in mallard or bobwhite)	71-2
Environmental Fate [5]	
Hydrolysis	161-1
Aerobic soil metabolism	162-1
Photodegradation in water	161-2
Photodegradation on soil	161-3
Koc or Kd	163-1

[1] For use on food crops, include whether pre-harvest and/or postharvest application or use on livestock, and any use restrictions.

[2] Batch analyses would be required only if there are possible contaminants of concern or if a mixture of variable composition is involved.

[3] If the inert is used in a food-use product, two subchronic feeding studies will be required.

[4] The study may be substituted for the 90-day feeding studies if only non-food use is proposed. The duration of a subchronic dermal study will depend on the potential duration and frequency of human exposure.

[5] Ecotoxicology and environmental fate testing are required only for formulations used outdoors.

In certain circumstances, EPA may waive some or all of these data requirements, for example, if the applicant can show that the proposed new use pattern of the inert ingredient will result in little or virtually no exposure. Data or use information

should address dietary, groundwater or applicator exposure, as appropriate. In gathering the data to be submitted to the Agency, the applicant should contact manufacturers, trade associations, etc., who may be able to assist in identifying appropriate data. As a minimum, applicants whose formulations contain new food-use inert ingredients should contact the FDA to obtain data and information on inert ingredients that may have approved food additive uses.

In addition to new inert ingredients, the data requirements and review process described above will be used to evaluate requests for additional exemptions from tolerances and changes in exemptions from tolerances of inerts already cleared for food-use and for exemptions from tolerances for existing inert ingredients not presently used on foods. The requirements outlined constitute our "base set" of data needs. If these studies indicate potential human health concerns or ecotoxicity, or potential groundwater contamination, further testing may be required to fully assess the risks and define acceptable uses.

VII. Proprietary Inert Ingredients or Mixtures

In the case of some products, the registrant is not aware of the identity of all of the inert ingredients. These products contain a substance (usually a combination of several inert ingredients) which is designed to perform a particular function in pesticide products (e.g., to act as a solvent or emulsifier) but which is sold to pesticide registrants under a trade name without disclosure of the substance's constituents. The seller of such a substance typically will claim that the identity of the constituents is a trade secret. Many of these "proprietary inerts" are marketed in this manner today. EPA has allowed pesticide products containing such substances to be registered if the applicant for registration first arranged to have the supplier of the proprietary inert substance disclose its formula to EPA.

This practice poses problems in administering the data call-in and labeling requirements contemplated by this Notice. For instance, EPA may know that a proprietary inert substance contains a List 1 inert ingredient, but may be unable to disclose that fact to the registrants of the products that contain the proprietary substance. EPA obviously cannot require these registrants to list the inert ingredient on their labels, or subject them to a data requirement, until the confidentiality problem is overcome. The approaches set forth below address this problem.

A. Existing Registrations

If a product with an existing registration contains an inert of toxicological concern comprising part of a proprietary inert ingredient or mixture, the Agency will request the formulator of the ingredient or mixture to divulge the presence and identity of the inert of toxicological concern to the registrant so that the registrant can label the product properly. If the producer of the proprietary ingredient or mixture refuses to divulge this information, the Agency will require the formulator to justify the claim of confidential business information under 40 CFR Part 2. If EPA reviews the claim and determines that it is without merit, EPA will so inform the formulator of the ingredient or mixture. Thereafter, following the appropriate procedures in EPA regulations, EPA may inform registrants that the proprietary inert ingredient or mixture contains a specific ingredient. If EPA does not decide to disallow a CBI claim, EPA may none-the-less require, under FIFRA section 3(c)(2)(B), that the registrant provide EPA with information showing that the registrant knows the composition of the proprietary inert ingredient or mixture. In either case, once EPA has determined that a registrant is aware that his product contains an inert of toxicological concern which is present in a proprietary inert ingredient or mixture used to formulate the product, EPA will inform the registrant of the regulatory actions being initiated because of the presence of that inert ingredient.

B. Applications for New Registrations

If a registrant submits an application for a new use or identical or a substantially similar use containing an inert of toxicological concern as part of a proprietary inert ingredient or mixture, the Agency will notify the registrant that the product cannot be registered based on the inert ingredients which are contained in the formulation. It will be the responsibility of the registrant to contact the formulator/supplier of any proprietary ingredient or mixtures used in the pesticide formulation and determine the identity of the inert(s) of toxicological concern present in the pesticide formulation.

C. Registrant's Ongoing Responsibility for the Composition of Products

Units VII.A. and VII.B. discuss the procedures the Agency will employ to ensure that a registrant is aware that his product contains an inert of toxicological concern as part of a proprietary inert ingredient or mixture. With the exception of knowing about the presence of inerts of toxicological concern, the Agency does not at this time plan to require that an applicant know or find out the composition of a proprietary inert ingredient or mixture in order to obtain registration. An applicant is, however, required to ensure that the Agency is informed of its composition by its producer.

In addition, the Agency does hold a registrant responsible for the certified limits of each inert ingredient in his product, including those that are present as part of a proprietary inert ingredient or mixture. An applicant who does not know the composition of an inert ingredient or mixture, and cannot persuade his supplier or producer to disclose it, may certify to an upper and lower limit of the ingredient or mixture as introduced into his product. In this case, the fact that the applicant uses a proprietary inert ingredient or mixture whose composition is not known to him does not remove his responsibility for maintaining the composition of each of those inert ingredients within its certified limits and assuring that the composition of the proprietary inert ingredient(s) or mixture(s) he uses will not change over time. EPA believes that a contractual arrangement between formulator and supplier is the best way to ensure that the formulator can rely on the composition of the material received, short of having direct knowledge of its composition.

Dated: April 13, 1987.

J.A. Moore,

Assistant Administrator for Pesticides and Toxic Substances.

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ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF PESTICIDES AND TOXIC SUBSTANCES

[OPP-36140A; FRL 3667-6]

INERT INGREDIENTS IN PESTICIDE PRODUCTS;
POLICY STATEMENT; REVISION AND MODIFICATION OF LISTS

AGENCY: Environmental Protection Agency (EPA).

ACTION: Notice.

SUMMARY: EPA is revising and modifying previously published lists of inert ingredients in pesticide products that are of toxicological concern and require priority testing. EPA is also addressing the period of time allowed to exhaust stocks of old formulations.

EFFECTIVE DATE: The modified lists are effective on (insert date of publication in the FEDERAL REGISTER).

ADDRESSES: Three copies of written comments bearing the document control number [OPP-36140A] should be submitted, by mail, to:

Public Docket and Freedom of Information Section,
Field Operation Division (H7504C),
Office of Pesticide Programs,
Environmental Protection Agency,
401 M St., SW.,
Washington, DC 20460.

In person, deliver comments to:

Rm. 246, CM #2,
1921 Jefferson Davis Hwy.,
Arlington, VA.

88P-1234

Information submitted as a comment in response to this Notice may be claimed confidential by marking any part or all of that information as "Confidential Business Information" (CBI). Information so marked will not be disclosed except in accordance with procedures set forth in 40 CFR Part 2. A copy of the comment that does not contain CBI must be submitted for inclusion in the public docket. Information not marked "confidential" will be included in the public docket without further notice. The public docket is available for public inspection in Rm. 246 at the address given above from 8 a.m. to 4 p.m., Monday through Friday, except legal holidays.

FOR FURTHER INFORMATION CONTACT:

Lynn M. Bradley,
Registration Support Branch,
Registration Division (H7505C),
Environmental Protection Agency,
401 M St., SW.,
Washington, DC 20460,
(202)-703-557-7700.

SUPPLEMENTARY INFORMATION: EPA announced its policy on toxic inert ingredients in pesticide products in the FEDERAL REGISTER of April 22, 1987 (52 FR 13305). Through this policy, EPA encourages the use of the least toxic inert ingredients available and requires the development of data necessary to determine the conditions of safe use of products that contain toxic inert ingredients. In developing this policy, EPA

categorized inert ingredients into the following four lists according to toxicity:

List 1 Inerts of toxicological concern

List 2 Potentially toxic inerts, with high priority for testing

List 3 Inerts of unknown toxicity

List 4 Inerts of minimal concern

List 1 and List 2 were published as part of the April 22, 1987 policy statement.

The criteria developed by EPA to categorize List 1 inerts were reviewed by the Federal Insecticide, Fungicide, and Rodenticide Act's Scientific Advisory Panel (FIFRA SAP). Chemicals were placed on the list of inerts of toxicological concern if they met any one of the following criteria.

1) Carcinogenicity:

- a rating as a human carcinogen of probable human carcinogen (rating 1, 2A or 2B) by International Agency for Research on Cancer.
- characterized by the National Toxicology Program as an animal carcinogen in at least one species and one sex.
- being regulated by some Federal agency as a carcinogen.

2) Neurotoxicity and other Chronic Effects:

- identified in the Occupational Diseases, a Guide to their Recognition (1977), as causing neurotoxicological and other chronic effects in the workplace environment.
- being regulated by some Federal agency as a neurotoxin.
- peer reviewed study, included in the Toxicology Data Bank

of the National Library of Medicine, reporting neurotoxic or other chronic effects.

3) Adverse Reproductive Effects:

- being regulated by some Federal agency as causing adverse reproductive effects.

- peer reviewed study, included in the Toxicology Data Bank of the National Library of Medicine, reporting adverse reproductive effects.

4) Ecological Effects:

-an LC50 of less than one part per million.

Revision of Lists of Inert Ingredients. Since the publication of the policy, EPA has received additional data on some of the listed inerts. EPA scientists have reviewed this information according to criteria previously developed and used in the creation of the initial lists. As a result of this recent examination of new data, EPA proposed modifications to the lists. These modifications were submitted to the FIFRA SAP for review. The FIFRA SAP concluded that the proposed changes were justified.

EPA is announcing the following revised List 1 and List 2.

LIST 1 -- INERTS OF TOXICOLOGICAL CONCERN

CAS No.	Chemical name
62-53-3	Aniline
1332-21-4	Asbestos fiber
123-31-9 1332-21-9	1,4-Benzenediol
7440-43-9	Cadmium compounds
56-23-5	Carbon tetrachloride
67-66-3	Chloroform
106-46-7	p-Dichlorobenzene
103-23-3	Di-(2-ethylhexyl)adipate
78-87-5	1,2-Dichloropropane
117-87-8	Di-ethylhexylphthalate
68-12-2	Dimethylformamide
123-91-1	Dioxane
106-89-8	Epichlorohydrin
110-80-5	2-ethoxyethanol
111-15-9	Ethanol ethoxyacetate
107-06-2	Ethylene dichloride
109-86-4	Ethylene glycol monomethyl ether
140-88-5	Ethyl acrylate
110-54-3	n-Hexane
302-01-2	Hydrazine
78-59-1	Isophorone
7439-92-1	Lead compounds
568-64-2	Malachite green
591-78-6	Methyl n-butyl ketone
74-87-3	Methyl chloride
75-09-2	Methylene chloride
25154-52-3	Nonylphenol
127-18-4	Perchloroethylene
108-95-2	Phenol
90-43-7	o-Phenylphenol
75-56-9	Propylene oxide
8003-34-5	Pyrethrins
81-88-9	Rhodamine B
10588-01-9	Sodium dichromate
26471-62-5	Toluene diisocyanate
79-00-5	1,1,2-Trichloroethane
56-35-9	Tributyl tin oxide
79-01-6	Trichloroethylene
1330-78-5	Tri-orthocresylphosphate (TOCP)
78-30-8	Tri-orthocresylphosphate (TOCP)

LIST 2 -- POTENTIALLY TOXIC INERTS/HIGH PRIORITY FOR TESTING

CAS No.	Chemical name
85-68-7	Butyl benzyl phthalate
84-74-2	Dibutyl phthalate
84-66-2	Diethyl phthalate
131-11-3	Dimethyl phthalate
117-84-0	Dioctyl phthalate
95-49-8	2-Chlorotoluene
1319-77-3	Cresols
95-48-7	o-Cresol
106-44-5	p-Cresol
108-39-4	m-Cresol
108-94-1	Cyclohexanone
95-50-1	o-Dichlorobenzene
112-34-5	Diethylene glycol monobutyl ether
111-90-0	Diethylene glycol monoethyl ether
111-77-3	Diethylene glycol monomethyl ether
34590-94-8	Dipropylene glycol monomethyl ether
111-76-2	2-Butoxy-1-ethanol
5131-86-6	1-Butoxy-2-propanol
124-16-3	1-Butoxyethoxy-2-propanol
107-98-2	1-Methoxy-2-propanol
29387-86-8	Propylene glycol monobutyl ether
25498-49-1	Tripropylene glycol monomethyl ether
141-79-7	Mesityl oxide
108-10-1	Methyl isobutyl ketone
96-29-7	Methyl ethyl ketoxime
108-90-7	Monochlorobenzene
75-52-5	Nitromethane
108-88-3	Toluene
29395-43-1	Tolyl triazole
95-14-7	1,2,3-Benzotriazole
120-32-1	2-Benzyl-4-chlorophenol
75-00-3	Chloroethane
88-04-0	p-Chloro-m-xylenol
97-23-4	Dichlorophene
100-41-4	Ethyl benzene
149-30-4	Mercaptobenzothiazole
74-83-9	Methyl bromide
75-43-4	Chlorodifluoromethane
75-43-4	Dichloromonofluoromethane
75-45-6	Chlorodifluoromethane
75-37-6	1,1-Difluoroethane
75-68-3	1-Chloro-1,1-difluoroethane
25168-06-3	Isopropyl phenols
	Petroleum hydrocarbons
1330-20-7	Xylene
100-02-7	p-Nitrophenol

LIST 2 -- POTENTIALLY TOXIC INERTS/HIGH PRIORITY FOR TESTING, cont'd

CAS No.	Chemical name
106-88-7	Butylene oxide
79-24-3	Nitroethane
75-05-8	Acetonitrile
71-55-6	1,1,1-Trichloroethane
102-71-6	Triethanolamine
111-42-2	Diethanolamine
97-88-1	Butyl methacrylate
80-62-6	Methyl methacrylate
	Xylene-range aromatic solvents
95-82-9	2,5-Dichloroaniline
95-76-1	3,4-Dichloroaniline
626-43-7	3,5-Dichloroaniline
554-00-7	2,4-Dichloroaniline
608-27-5	2,3-Dichloroaniline
608-31-1	2,6-dichloroaniline
101-84-8	Diphenyl ether
76-13-1	Trichlorotrifluoroethane
75-69-4	Trichlorotrifluoroethane
75-71-8	Dichlorodifluoromethane
79-14-2	Dichlorotetrafluoroethane

The changes made and the reasons for the changes are explained below.

Additions to List 1. Di-(2-ethylhexyl)adipate and dimethylformamide (DMF) were moved to List 1 from Lists 3 and 2, respectively. Based on a National Toxicology Program bioassay, positive results for oncogenicity were indicated for di-(2-ethylhexyl)adipate: This chemical caused increased incidences of hepatocellular carcinomas in female mice, and thus meets one of the criteria for categorization as a List 1 inert.

For dimethylformamide (DMF), hepatotoxicity has been reported at very low doses in animal studies and is commonly observed in

case reports of industrial exposure. Developmental toxicity has also been reported to occur in animal studies in the literature. In addition, recent reports of clusters of testicular cancer associated with human exposure to DMF have added to the weight of evidence which supports upgrading this compound from List 2 to List I.

Additions to List 2. Based on data available at the time of the April 22, 1987, FR Notice, monochlorobenzene was determined to be an oncogen as well as an ecotoxin. For these reasons, it was placed on List 1. The EPA Science Advisory Board has reviewed the oncogenicity data on monochlorobenzene and concluded that it is a class D oncogen, i.e., not classifiable. EPA scientists have reevaluated the ecotoxicity data and concluded that monochlorobenzene does not meet List 1 ecotoxicity triggers. Because of these determinations, monochlorobenzene is being moved from List 1 to List 2 and is now considered as a high priority for testing.

Methyl ethyl ketoxime has been moved from List 3 to List 2 because of its close structural relationship to acetoxime, which has been reported as being carcinogenic in preliminary tests and is also positive in a mouse lymphoma test. Methyl ethyl ketoxime has been proposed for testing under Section 4 of the Toxic Substances Control Act.

Additions to Lists 3 and 4. To accomodate revision of the lists, EPA has decided to subdivide List 4 into two parts. The previous List 4, representing inerts generally regarded as safe, has become List 4A, and a new List 4B has been created. List 4B

is composed of inerts for which EPA has sufficient information to reasonably conclude that the current use patterns in pesticide products will not adversely effect public health and the environment. List 4B inerts in formulations proposed for new use patterns which cause significant increases in exposure will receive further scrutiny.

Two inerts, gammabutyrolactone and dioctyl sodium sulfosuccinate (DSS), are being removed from List 2 because EPA now has a complete human health effects data base indicating that they do not meet the criteria for List 1 and that their current use in pesticides should not adversely affect human health.

The placement of gammabutyrolactone on List 2 was based on structural analogy to the known oncogen, betabutyrolactone. Further review indicates this analogy is inappropriate. In addition, a review of toxicity data for gammabutyrolactone, including acute and subchronic data, developmental toxicity, mutagenicity, and oncogenicity indicates a low order of toxicity. Thus EPA has decided to remove gammabutyrolactone from List 2 and add it to List 4B because current use patterns pose minimal risk for human health. Because gammabutyrolactone has not been adequately tested for ecotoxicity, however, it is being placed on List 3 for these effects. EPA decided to list the inert on two lists to reflect the different degree of knowledge the Agency has about the inert's various effects. EPA considered it appropriate to place the inert on List 4B because it has sufficient information about human health effects, and to also place it on List 3 to reflect inadequate information concerning the ecotoxicity of this inert.

DSS was placed on List 2 because of developmental and reproductive toxicity concerns as well as ecotoxicity concern for surfactants. Data have now been reviewed for these effects, and indicate a low order of toxicity. Thus, DSS is added to List 4B for nonadverse effects on human health. Because of limited ecotoxicity testing, however, DSS remains on List 3 (unknown toxicity) for these effects.

Deletions from all lists. Further investigation of ethylene thiourea, carbon disulfide, and 1,1-dimethylhydrazine (UDMH, the impurity in Alar, which is in Special Review), has revealed that these are only impurities, not intentionally added inerts. Furthermore, betabutyrolactone, benzene, dichlorvos, 1,2-dimethylhydrazine, pentachlorophenol and sodium pentachlorophenate, dinitro-o-cresol, dinitrophenol, ethyl methyl phenylglycidate, formaldehyde and paraformaldehyde, hexachlorophene, mercury oleate, 2-nitropropane, 1,2-dichloropropane, and thiourea are not now used as inerts in any pesticide products. Therefore, these chemicals have been removed from all lists of inert ingredients and are not currently cleared for use as inerts in any pesticide product. Thus, in the event a registrant or applicant proposes to include one of these chemicals as an inert ingredient in a pesticide product, EPA will consider the chemical a new inert.

Impurities in registered products are contaminants from the manufacturing process for the active ingredient, rather than intentionally added inert ingredients. The presence and toxicity of impurities is routinely evaluated during the normal Agency review processes. Impurities are identified in the product chemistry review, and would probably have been present, as part of the test material, during testing considered for support

of the registration. Thus, it is not appropriate to subject impurities to the Inerts Strategy.

As discussed in the April 22, 1987 Notice, registrants with products containing List 1 inert ingredients must amend their product registrations by adding the following statement to the label:

> This product contains the toxic inert ingredient (name of inert).

The wording should be placed in close proximity to the ingredients statement in a type size comparable to other front panel text. Since dimethylformamide and di-(2-ethylhexyl)adipate have been added to List 1, registrants of products containing these inerts are required to submit applications to amend their product labels not later than (insert date six months after publication). Products containing one of more of these inert ingredients released for shipment after (insert date eighteen months after publication) must have the amended label in place.

Registrants of products containing dimethylformamide have already received a Data Call-In. All registrants have either voluntarily cancelled or committed to reformulate the product. Most reformulations have been received; a few time extensions were granted to allow for necessary testing of the reformulated product.

A Data Call-In for di-(2-ethylhexyl)adipate will be issued, at the same time as for diethylhexylphthalate, since the uses are similar and we expect to find them in the same types of products. Data Call-Ins for all other original List 1 inerts were mailed in March 1989.

Stocks of Old Formulations. Registrants are encouraged to substitute or remove any List 1 or List 2 inert ingredient from their products by submitting a new Confidential Statement of Formula as a proposed amendment to the registration. The April 22, 1987 Policy statement did not address provisions governing the sale of stocks of old formulations. If a registrant reformulates its product to replace a List 1 or List 2 inert ingredient with a less toxic inert, EPA has determined that some limit on continued sale of stocks of the old formulation is appropriate.

Once a registrant submits the revised formulation, registrants may manufacture only the old formulation, properly labeled as containing a toxic inert as described above, until EPA accepts the new formulation. Stocks of the old formulation, bearing the required labeling, may be released for shipment by the registrant for a period not to exceed twelve months from the data EPA accepts the new formulation. Products already in channels of trade (retailers, distributors, dealers) are not subject to this limitation.

Dated: OCT 10 1989.

Douglas D. Campt,
Director,
Office of Pesticide Programs.

CERTIFIED TO BE A TRUE
COPY OF THE ORIGINAL
Emily Glover

ATTACHMENT 5
FOOD USE PESTICIDES WHICH HAVE BEEN EVALUATED FOR CARCINOGENICITY

CLASSIFIED GROUP[1] A, B, OR C

ACTIVE INGREDIENT	GROUP[1]	409 TOLERANCE
1,3-dichloropropene (Telone)	B	
acephate	C	food, feed
acifluorfen	B2	
alachlor	B2	
Aliette (fosetyl al)	C	
Amdro	B2	
amitraz	C	
Apollo (clofentezine)	C	feed
arsenic acid (orthoarsenic acid)	A	
asulam	C	
atrazine	C	
benomyl[2]	C	food, feed
bifenthrin	C	
bromoxynil	C	
captan	B2	food, feed
chlorothalonil	B2	
cypermethrin	C	
dichlobenil	C	
dichlorvos (DDVP)	C	food
diclofop methyl	C	
dicofol	B2/C	food
dimethipin (Harvade)	C	

ACTIVE INGREDIENT	GROUP	409 TOLERANCE
ethylene oxide.....(inhalation route)	B2	food
ETU (ethylene thiourea).....	B2	(metabolite of EBDCs)
Express	C	
folpet.....	B2	
fomesafen.....	C	
HCB (contaminant of PCNB).....	B2	
lactofen.....	B2	
lindane.....	B2/C	
linuron.....	C	
mancozeb[2]..... (Treated as)	B2	food, feed
maneb[2]..... (Treated as)	B2	
methidathion.....	C	
metiram[2]..... (Treated as)	B2	
metolachlor	C	
oryzalin	C	food
oxadiazon	C	
oxyfluorfen.....	C	food
parathion	C	
permethrin	C	
phosmet	C	food
phosphamidon.....	C	
pronamide	C	
propiconazole.....	C	
propoxur (Baygon).....	B2	(fd hndlng estab only)
p-dichlorobenzene.....	C	

ACTIVE INGREDIENT	GROUP	409 TOLERANCE
Savey	C	
simazine	C	
terbutryn	C	
tetrachlorvinphos (Gardona)	C	feed
thiophanate methyl[2]	C	
toxaphene	B2	feed
thiadimenol (Baytan)	C	
tridiphane	C	
trifluralin	C	food

PESTICIDES CLASSIFIED D OR E, OR NOT YET CLASSIFIED

2,4-D	D	food, feed
acetamide (metabolite of methomyl)		
azinphos-methyl (Guthion)	D	
bromacil		
chloramben		
cyromazine[2]		feed
diallate		
ethalfluralin		feed
glyphosate	D	food, feed
metalaxyl	E	
methanearsenic acid		feed
methomyl[2] ..(acetamide is metabolite).		
o-phenylphenol		
paraquat	E	food, feed
PCNB (pentachloronitrobenzene)[2]	D	
thiodicarb[2] (acetamide is metabolite).		

NOTES:

[1] Classification in accordance with EPA's Cancer Assessment Guidelines of those chemicals for which a weight-of-the-evidence determination have been made.

Group A - Human Carcinogen (sufficient evidence of cancer causality from human epidemiologic studies)

Group B - Probable Human Carcinogen -- B1 (limited evidence of carcinogenicity from human epidemiologic studies); B2 (sufficient evidence of carcinogenicity from animal studies)

Group C - Possible Human Carcinogen (limited evidence of carcinogenicity in animals in the absence of human data, including malignant tumor response in a single well-conducted experiment not meeting conditions for sufficient evidence, tumor responses of marginal statistical significance in studies having inadequate design or reporting, benign tumors where short-term mutagenicity tests are negative, and responses of marginal statistical significance in a tissue with high background rate)

Group D - Not Classifiable as to Human Carcinogenicity (either inadequate evidence of carcinogenicity or absence of data)

Group E - Evidence of Non-Carcinogenicity for Humans (no evidence of carcinogenicity in at least two adequate animal tests in different species or in both adequate epidemiologic and animal studies)

[2] Included due to potentially carcinogenic metabolite or contaminant.

PESTICIDES WITH ALL FOOD USES CANCELLED

calcium arsenate..... A
captafol..... B2
chlordimeform & hydrochloride B2
chlorobenzilate.....
copper arsenate..... A
daminozide..... B2
dinoseb..... C
DBCP (organic) (dibromochloropropane) B2
EDB..... B2
lead arsenate..... A
magnesium arsenate..... A
propazine..... C (Registrant cancelled; EPA checking for any remaining formulators)
sodium arsenate ..... A
sodium arsenite ..... A
zineb2 (EBDC)..... (Treated as) B2 (all food uses suspended and proposed for cancellation)

PREPARATION FOR THE 1990 FARM BILL

Administration Views

WEDNESDAY, FEBRUARY 7, 1990

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 9:36 a.m., in room SR-332, Russell Senate Office Building, Hon. Patrick J. Leahy (chairman of the committee) presiding.

Present or submitting a statement: Senators Leahy, Pryor, Heflin, Conrad, Fowler, Daschle, Baucus, Kerrey, Lugar, Dole, Cochran, Boschwitz, McConnell, Bond, and Gorton.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. Senator Lugar will be delayed by a few minutes.

We start today officially working on the 1990 farm bill with the testimony of the Secretary of Agriculture. We should remember as we begin working on the 1990 farm bill we are not just writing another law. This is one of the extraordinary things we get to do every 5 years. We are writing the family budgets for hundreds of thousands of American farmers. We will be deciding how much, and how safely, millions of Americans will eat.

We will decide important and complex issues—planting flexibility, target prices, crop yields, ground water, food safety, trade and so forth.

As we go into these details—the specifics of policymaking—we must keep in mind that we are not engaged in some abstract exercise. Let us not forget as we sit in this beautiful hearing room that the decisions that are perhaps easily made in the abstract affect reality probably more than most decisions made on Capitol Hill. The decisions we make here in Washington will have a profound and dramatic impact on very real people—American farmers across this country.

These are the men and women who work the land, that feed our nation and helped build it into what it is today.

Last week, for example, at Senator Pryor's subcommittee hearing, Marlyn Jorgensen, president of the American Soybean Association, said his son will soon make a decision whether or not to stay in farming. His son's decision, he said, will be based on this farm bill.

I have heard very much the same thing in Vermont.

Yesterday, we received the administration's proposals for the 1990 farm bill.

Some of the proposals are specific. I am pleased that the administration is starting to work with Congress on the farm bill.

Unfortunately, some of the specifics are not there. The administration does not tell farmers what target prices should be. American farmers—whether they are corn farmers in Iowa, wheat farmers in Nebraska, or Kansas—need to know what their income will be. Congress needs to know how much the administration is willing to spend on farm programs.

If you do not have any specifics on target prices, then you do not have the heart of the farm bill.

In another area, while I am pleased that the administration proposes no backsliding on the 1985 farm bill conservation gains, I do feel that it is moving too slowly to help farmers cut pesticide and chemical use.

The administration has also failed to submit a strong proposal to protect our ground water from pesticide and fertilizer contamination.

As we debate and pass the farm bill, I think there are three themes to keep in mind: consensus, competitiveness, and compassion.

Let me start with consensus.

In considering the 1985 farm bill, the farm community and this committee had long debates over the direction of agriculture. The debates concerned mandatory programs, farm credit, and a host of other issues.

Fortunately, this year the debate in the farm community does not appear to be as polarized as it was 5 years ago. That means much of the basic structure of the 1985 farm bill will likely continue in the 1990 farm bill.

In 1990, consensus will no longer simply mean agreement among traditional agriculture. Agriculture, consumers, environmental groups and others must also be a part of that consensus.

The debate will be broader. In addition to traditional agricultural programs, conservation, farm credit and income, many of us at this table will be concerned with food safety, forestry, ground water, organic farming, and pesticides.

The public is paying closer attention to agriculture. Consumers are concerned about the safety of their food and the protection of their environment and about the nutrition of those in their community.

We cannot ignore these issues. If we do, we will face continual problems as we decide how to produce and market our products in the future.

Then there is competitiveness.

Through sensible negotiations and farm policies, we can help farmers be more competitive. Planting flexibility will improve our ability to react to market signals. It will allow farmers to reduce chemical use and cut back on production costs. In later hearings, we will deal with these subjects in more detail.

But while trade negotiations and planting flexibility are important, they cannot be used as a guise simply to cut farm income.

Finally, compassion.

We are fortunate as Americans. We live in the wealthiest, most powerful nation in the world. We are the richest, most food self-sufficient nation in the world. We are the only major power in the world able to feed all its own people and still have food left over. Yet, many Americans go to bed hungry: one out of five children lives in poverty and in hunger. This is not just a problem limited to the homeless living on our street corners and in subway stations. It is far more extensive.

Hunger is not a political issue.

My good friend, Bob Dole, and I have joined together over the years on nutrition issues. We have proven bringing together Republicans and Democrats, conservatives, liberals, and moderates that we consider it not a political issue. It is a moral issue. It gnaws at the inner fiber of our nation's health.

We cannot drive hungry students from the School Lunch Program. We cannot ignore mothers and babies eligible for WIC. Nor should we put the nutrition provisions of the bill together at midnight on the final night of negotiations as an afterthought. It is much too important. It will be right up front in this farm bill.

Mr. Secretary, there are several areas that you and we can agree on fairly quickly:

Public Law 480, and Export Promotion: My staff has been working closely with you to develop major, comprehensive reforms of Public Law 480, the Export Enhancement Program, and the Targeted Export Assistance Program.

Forestry: Senator Lugar and I plan to follow up on our bill of last year to plant 1.5 billion trees by introducing the President's plan to plant 10 billion trees in 10 years. Going further, I plan to include a comprehensive forestry title in the farm bill.

In fact, I will even plant one of those trees specifically, in the President's honor, on my tree farm. That may or may not help the President, I am not sure. But we will follow up on our plan of last year, and I suspect—of course Senator Lugar can well speak for himself—but I suspect we are going to find eager and thorough sponsorship of such bills.

Fish Inspection: While the administration still needs to work out the jurisdictional issues, I am hopeful that we can develop legislation to protect the public health. Mr. Secretary, I hope we can build on these and other issues as we develop the farm bill. I look forward to your comments and suggestions.

I want to work with you and with all interested parties to form the consensus, to develop a farm bill we can all be proud of. Thank you again Mr. Secretary for being with us today.

I yield to my good friend, Senator Lugar.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Thank you, very much, Mr. Chairman.

I appreciate your statement as always and obviously the presence of our good friend, Clayton Yeutter.

It was only a year ago, Secretary Yeutter, that you appeared before our committee for confirmation. You were regarded and by

unanimous consent we acclaimed you to be the best qualified person available in America for the job.

In my judgment, the past year has certainly vindicated that judgment and added to the luster of your reputation in public service.

I welcome you to the committee this morning. The time has come to begin writing the 1990 farm bill and we are pleased to have the administration's overall proposals before us.

I find much to praise in what the administration has submitted. First and foremost you have recognized the need for more planting flexibility in our farm programs. Your proposals, which are similar to Senate Bill 1926,[6] which Chairman Leahy and I introduced last fall, will make the farm program benefits a neutral factor in farmers' planting decisions. That is a hallmark of genuine flexibility and market oriented farm policy.

Mr. Secretary, my own view is that net farm income is not determined by the Federal Government, whether it be your plan, or our farm bill. Congress can provide a safety net, but net farm income is determined by overall demand: either domestically or abroad, the ability of farmers to efficiently manage their resources, and sometimes, by overall interest rates, both in our country and worldwide, over which the individual farmer or the Secretary of Agriculture does not have control.

I have noted in your proposals that you have targeted our attention, rather than on prices, on three factors which may have something to do with the safety net. They will include, ultimately, a determination of a combination of target prices; the basis of acreage on which those prices are to be applied or the bushels or units coming from those acres; and finally, a very frank discussion as to whom the payment should be made?

Are there income levels or levels of operation which do not merit the same consideration as the family farmer that we have frequently targeted for our major consideration?

It is in a combination of these three areas where the Federal contribution debated and we look forward to those negotiations, which are likely to be sizable and intense, between USDA, the administration and ourselves.

The administration proposals continue to move toward market orientation, all the while recognizing the need for a safety net, and the need to maintain negotiating leverage in the current Uruguay round of GATT talks.

There will be some specifics of the administration proposal that I may question, but on the whole, I believe the document is sound policy, motivated by a long-term vision of American agriculture; an agriculture that is efficient, competitive, profitable and free of excessive dependence on the Federal Government.

Therefore, I will soon introduce legislation that incorporates many of the proposals of the administration, while also including some of my own thoughts on various topics. In this way, I would assure the committee that we will have a relatively comprehensive bill that will reflect the desires of the administration and that can

[6] S. 1926, Agricultural Competitiveness and Planting Flexibility Act of 1990. Some provisions included in S. 2830.

perhaps become a vehicle, among others, for crafting the legislation we may ultimately wish to pass.

Mr. Chairman, I commend you, as always, for holding this hearing. I look forward to working with you, with the Secretary, my colleagues on the committee to write a sound, responsible 1990 farm bill.

The CHAIRMAN. Thank you, very much, Senator Lugar and a man who is the senior member of this committee, Senator Dole is with us and I am glad to yield to the Republican leader.

STATEMENT OF HON. ROBERT DOLE, A U.S. SENATOR FROM KANSAS

Senator DOLE. Thank you, Mr. Chairman, and welcome. I saw our good friend John Melcher over there.

I want to commend the efforts of the administration in outlining their proposals for the 1990 farm bill. I watched you on C-Span last night; there are not many good programs on.

I thought I would go on and educate myself, so I watched your press conference and it gave me a lot of information I did not have.

I think it might be helpful if we could have your specific recommendations for where we are going to find the $1.5 billion in savings, it might help us. I think many of us feel that there should be savings, and if you can help us along the way, that would be helpful.

But I think you have outlined, not only as I listened last night and as I read your statement this morning, that we are building on the 1985 farm bill which is a very, very contentious piece of legislation.

It was very difficult to pass on the Senate floor. Every time we would bring it up, somebody would say we are not going to pass it, and it only takes one or two to do that. And we did not pass it for a long time.

I think many of those who opposed the bill have now adopted it or at least feel that it is a place to start. We do not hear much demand for mandatory programs. In fact, in a recent survey in my State, of 1,220 farmers, 32 percent said we do not want any program; about 38 percent said, keep the program we have. And I was surprised that we had the 32 percent, they would still like to get government out of agriculture and they worry about the $11 billion cost being a welfare program.

So I think there is still a strong group in America, all across this country, who are taking a second look at any program. But I think the point was that the 1985 farm bill, in my view, has been market oriented; it saves a lot of farmers. There are probably problems with it. We have got scandals in the Farmers Home Administration; we have had scandals in the disaster programs.

Hopefully we can address those problems this year. Farmers Home, in my view, ought to be addressed very quickly before people start writing off $10, $15 and $20 million loans out West. I hope we can move on that quickly.

Flexibility—you touched on it and I think that is going to be very helpful.

The environment—I have listened to the chairman and others, this is going to be a matter of discussion and concern of this committee. I have always felt that the farmer was sort of a pioneer environmentalist, but some do not agree with the farmer in every case. And we will have to take a look at some of the other suggestions.

Crop insurance—I think the administration is wise, that farmers cannot have it both ways any more than any other group. You cannot put $400 million into crop insurance and then $1 billion a year into disaster programs and get it passed every year around this place. My own preference would be a better crop insurance program.

And I know the chairman is going to schedule hearings on crop insurance and hopefully, at that time, some of us could weigh in how we can put together a crop insurance program that might be attractive to farmers. I think that at least Senator Bond has a different view on this side, but we ought to go one way or the other and not try to have both each year, because we find that people who take crop insurance are really penalized if there is a disaster program. They have spent the money; they have made the outlays and then generally, everybody is treated the same in a disaster so that they do not really gain anything. We did try to give them a little preference last year.

I certainly support your views on the Export Enhancement Program. That was a program that was initiated by a former member of this committee, Senator Ed Zorinsky, a good friend of yours and ours, largely at his instigation that program was adopted in 1985. And I would hope that we would use it as leverage at GATT and I know how you feel, Mr. Secretary and I agree with that.

But we do need to reform Farmers Home Administration. We get all kinds of bad vibes that Farmers Home may be the next, after S&L's, and we do not need that in rural America. We have had enough bad news. We do not need more.

But I do think that we ought to be apprised of those people who are defaulting on million dollar loans. That information is not available for some reason to the public. And it seems to me that those ought to be made available. If I owed $1 million, I assume it would be made available.

I just ask that my entire statement be made a part of the record and I commend the chairman and Senator Lugar and others on this committee. This is an important committee, not just to farmers, but we are going to be reauthorizing the Food Stamp Program and other nutrition programs, and the overall agriculture budget is what, about $48 billion?

And I think farmers sometimes feel that they get charged for all of that, so I hope when the media reports the break down of the budget, they will say price support programs are *x* amount and all of the other programs are certainly important, and even important to the American farmer, but maybe should not be charged directly to the farmer.

So I am pleased to be here, and I thank the chairman for having me here.

[The prepared statement of Senator Dole follows:]

STATEMENT OF SENATOR BOB DOLE
SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
"HEARING IN PREPARATION FOR 1990 FARM BILL:
THE ADMINISTRATION'S VIEWS"
FEBRUARY 7, 1990

MR. CHAIRMAN: I WANT TO COMMEND THE EFFORTS OF THE ADMINISTRATION IN OUTLINING THEIR PROPOSALS FOR THE 1990 FARM BILL. THE PROPOSALS ARE AN ATTEMPT TO ENSURE THAT THE FIRST FARM BILL DISCUSSIONS OUT OF THE STARTING BLOCKS ARE POLICY DRIVEN, NOT BUDGET DRIVEN. IN THE PAST IT SEEMS VARIOUS ADMINISTRATIONS HAVE PRESENTED OVERALL FARM BILLS THAT HAVE BEEN MORE OUT OF CONSIDERATION FOR BOTTOMLINE NUMBERS THAN COMMON-SENSE POLICY FOR THE AMERICAN FARMER.

NO DOUBT, THE BUDGET WILL PLAY A KEY ROLE IN THE FINAL WRITING OF THE 1990 FARM BILL. HOWEVER, THE ADMINISTRATION'S PROPOSALS GIVE US A SOLID STARTING POINT, RECOGNIZING OF COURSE THAT WE'LL HAVE PLENTY OF WORK TO DO BEFORE WE HAMMER OUT A NEW BILL. WE NEED TO DEVELOP THE BEST POLICIES AND THEN PRODUCE A BUDGET PACKAGE THAT IS RESPONSIBLE.

ONE-YEAR EXTENSION OF THE 1985 BILL

STILL, A TOP PRIORITY FOR 1990 MUST BE PROMPT ACTION, ESPECIALLY FOR WINTER WHEAT FARMERS. THEY NEED TO KNOW THE FARM PROGRAM BEFORE THEY PLANT THEIR CROPS. THEREFORE, IF THE FARM BILL IS NOT COMPLETED BY MID-SUMMER, I WILL PUSH FOR THE OPTION TO HAVE A ONE-YEAR EXTENSION OF THE 1985 ACT. FARMERS SHOULD BE PROTECTED IF THE FARM BILL IS NOT COMPLETED BEFORE CROP PLANTING. I COMMEND THE ADMINISTRATION FOR THEIR DESIRE TO HAVE THE FARM BILL COMPLETED BY MID-SUMMER.

FLEXIBILITY

IT APPEARS THE ADMINISTRATION'S PROPOSALS ARE CONSISTENT WITH MANY OF THE IDEAS ADVANCED TO DATE BY MEMBERS OF THIS COMMITTEE. THE PROPOSALS ARE CONSISTENT WITH NORMAL CROP ACRES (NCA) IDEAS THAT MANY OF US HAVE TALKED ABOUT. NO DOUBT ABOUT IT, FARMERS NEED FLEXIBILITY -- THAT WILL BE A KEY ISSUE AS WE MOVE THE BILL ALONG.

ENVIRONMENT

THE ADMINISTRATION PROPOSALS ARE ALSO SENSITIVE TO ENVIRONMENTAL CONCERNS. AS I'VE SAID BEFORE, THE AMERICAN FARMER HAS BEEN A TRUE ENVIRONMENTALIST -- HE HAS BEEN A RESPONSIBLE STEWARD OF AMERICA'S GREAT NATURAL RESOURCES. YES, ENVIRONMENTAL ISSUES WILL GET PLENTY OF HEADLINE COVERAGE, BUT WE NEED TO STAY OBJECTIVE AND BALANCED SO WE DON'T LET THE RADICALS AND NON-FARM GROUPS DICTATE THE FUTURE OF AMERICAN AGRICULTURE.

CROP INSURANCE

THE CROP INSURANCE ISSUE IS CERTAINLY AN AREA THAT DESERVES THE FULL ATTENTION OF THE ADMINISTRATION AND THE COMMITTEE. THE ADMINISTRATION PROPOSALS CALL FOR THE ELIMINATION OF THE CURRENT CROP INSURANCE PROGRAM. I'M NOT READY TO GIVE UP ON THE CONCEPT OF A WORKABLE CROP INSURANCE PROGRAM WITHOUT TAKING A CLOSER LOOK AT SOME ALTERNATIVES. THERE IS A LOT OF SUPPORT IN FARM COUNTRY FOR THE PROGRAM. THIS IS EVIDENT IN THE INCREASING PERCENT OF ACREAGE SIGN-UP.

EXPORT ENHANCEMENT PROGRAM

ON THE EXPORT ENHANCEMENT FRONT, I AGREE THAT CONGRESS SHOULD BE CAUTIOUS IN SETTING SPECIFIED LIMITS ON THE PROGRAM. THERE IS NO DOUBT THAT "EEP" HAS BEEN ONE OF THE REAL SUCCESS STORIES OF THE 1985 FARM BILL. "EEP" CONVINCED THE COMPETITION THAT WE WERE SERIOUS ABOUT COMPETING IN THE MARKETPLACE, AND IT HAS GIVEN US NEW LEVERAGE IN THE CURRENT GATT NEGOTIATIONS. SINCE THE ENACTMENT OF "EEP" IN 1985 WE HAVE SPENT $2.7 BILLION AND AT THE SAME TIME SOLD NEARLY $10 BILLION OF FARM PRODUCTS. THOSE FIGURES DEMONSTRATE HOW FAR WE'VE COME SINCE THE DAYS OF MOUNTAINS OF SURPLUS GRAIN AND NOWHERE TO SELL IT.

FmHA -- REFORM NEEDED

AS FAR AS AGRICULTURAL CREDIT IS CONCERNED, WE NEED REFORM, AND WE NEED IT SOON. THERE IS REAL ABUSE IN SOME OF THE PROGRAM, ESPECIALLY IN THE SIZE OF WRITE-DOWNS AND BUY-OUTS. WE NEED TO ESTABLISH SOME LIMITS ON HOW THE GOVERNMENT FORGIVES, AND MAKE CERTAIN THE FAMILY FARMER IS GETTING A FAIR SHAKE. SENATOR KASSEBAUM AND I INTRODUCED SEVERAL REFORM PROPOSALS LAST YEAR THAT THE ADMINISTRATION ADDRESSED IN THEIR PROPOSALS. SENATOR KASSEBAUM AND I PLAN TO FOLLOW UP ON THIS ISSUE THIS YEAR AS WELL.

1985 BILL -- GOOD BUILDING BLOCK FOR 1990

AS WE BEGIN WORK ON THE 1990 BILL WE CAN TAKE ENCOURAGEMENT FROM THE GOOD WORK WE DID ON THE 1985 BILL. THE 1985 BILL PROVIDES A SOLID BUILDING BLOCK. THE 1985 BILL DID THREE BASIC THINGS:

1) PROVIDED FOR THE PROTECTION OF FARMER'S INCOME
2) INCREASED BOTH THE VOLUME AND THE VALUE OF AGRICULTURAL EXPORTS
3) BUDGETARY RESPONSIBLE - TODAY'S AG PROGRAMS COST LESS THAN HALF OF THE 1986 TOTALS.

THE 1985 FARM BILL CAME AT A TIME OF REAL FINANCIAL CRISIS FOR THE AMERICAN FARMER AND HELPED TURN THE CORNER. SOME FARMERS WILL TELL YOU STRAIGHT OUT - IT WAS A REAL LIFE-SAVER.

1990 FARM BILL

THE 1990 FARM BILL POSES NEW CHALLENGES TO BE FACED SINCE THE 1985 BILL. WE NEED THE POLICIES TO BE MORE FLEXIBLE, TO ALLOW FARMERS TO OPERATE MORE EFFICIENTLY IN THEIR PRODUCTION DECISIONS. WE MUST ALSO INCREASE OUR SENSITIVITY TOWARDS ENVIRONMENTAL CONCERNS, YET AT THE SAME TIME REMAIN RESPONSIBLE SO THAT WE DON'T PLACE UNDUE BURDENS ON FARMERS. AND THE BOTTOM LINE IS THAT THE BUDGET MUST COME INTO THE DEBATE AT SOME TIME.

THIS ADMINISTRATION PROPOSAL MAY NOT BE THE PERFECT PACKAGE WE ARE LOOKING FOR, BUT IT DOES PROVIDE A GOOD BASE FOR US TO WORK FROM.

1990 CHALLENGE: ELECTION SEASON

WITH 1990 BEING AN ELECTION YEAR, 9 OF THE 19 MEMBERS ON THE AGRICULTURE COMMITTEE WILL BE UP FOR RE-ELECTION. WITH THIS IN MIND WE MUST WORK QUICKLY IN HOPES OF MINIMIZING THE POLITICAL ASPECTS OF THE DISCUSSION.

LET ME REMIND THE COMMITTEE; FARMERS WANT A FARM PROGRAM, NOT A POLITICAL PROGRAM.

CONCLUSION

I HAVE BEEN LOOKING AT A NUMBER OF OPTIONS, AND I LOOK FORWARD TO WORKING WITH THE COMMITTEE AND THE ADMINISTRATION AS WE MOVE FORWARD.

The CHAIRMAN. We have you might say, the list, Senators Kerrey, Conrad, Fowler, Bond, Daschle, and Boschwitz. Senator Baucus will be in and out because of the clean air negotiations.

I yield to Senator Kerrey.

STATEMENT OF HON. J. ROBERT KERREY, A U.S. SENATOR FROM NEBRASKA

Senator KERREY. Thank you, Mr. Chairman.

Mr. Secretary, even with my diminishing eyesight, I can still see you down there. I appreciate your appearing here today. I guess I would begin by pointing out that in 1985, I was skeptical of the 1985 farm bill. As a Governor, I was busy trying to survive in the midst of a rather difficult Ag crisis, caused not just by the farm program but by other nonfarm economic conditions.

And one of the things I perhaps remember first about arriving here, is that I came to agree with the members of my legislature who had been telling me for 4 years that it is the executive branch that is all loused up. It did not take me long to discover how right they were.

I would simply suggest at the outset, Mr. Secretary, that sometimes Representatives to the U.S. Senate have a little closer feel for what the producers, themselves, want. Most of us are in regular contact on a very regular basis, whereas, I understand from firsthand experience on the executive side, your task is much different. Yours is much more an administrative job and at times, a very regulatory assignment; whereas most of us have been having some sort of field hearings, listening to people, what they want, trying to assess what the details of this farm program ought to be.

In fact, I would offer an interesting quote from President Reagan, when he signed the 1985 farm bill, about the Export Enhancement Program. The EEP was indeed very instrumental in turning agriculture around and was, in fact, the result of Senator Zorinsky making the effort to sponsor the program with Senator Dole and others. The President said, EEP was "totally counterproductive and the worst in the way of policy" and that he had "serious reservations" about it, and he was going "to work with Congress to make appropriate changes."

That was the executive branch's attitude at the time, whereas the legislative position was that this was needed in order to compete in the world market. Now, most of us accept EEP as something that, in fact, has worked and has strengthened your hand and Ambassador Hill's hand as we negotiate under the GATT.

I offer this just as an example that sometimes Congress is proved correct when it insists on a position over the strong objections of the administration.

I would be remiss if I did not offer some praise to the extent that your people have worked, at least with my office, and I assume with others, in trying to make the soil conservation compliance requirements in the 1985 farm bill work without abandoning the environmental objectives of the law.

We have a lot of work to do, as you know, in making certain that those provisions are effective. There are some efforts right now, in

Nebraska, with ARS and with SCS, trying to establish whether or not some alternative practices might work in reducing erosion.

I appreciate SCS' willingness to be flexible, because unless it is flexible, we will have growing numbers of people who will simply reject the good objectives of the program itself.

I would also embrace the apparent support of the Crop Insurance Program as the preferred alternative form of disaster assistance for a very simple reason.

The reason is that I believe the program should, as much as possible, be oriented not toward the bureaucracy and the politicians, but toward the farmer himself.

And what crop insurance does, it seems to me, is put in the hands of the farmer the requirement of assessing risk and managing that risk, in making a determination about protecting himself.

With all due respect, I think the Crop Insurance Program has not been managed well. I understand there are some efforts underway to improve that situation, but I think we have to aggressively implement the recommendations that were made by the Crop Insurance Commission and we have to look perhaps at management changes—you are more familiar with that, than me, since it is your area.

I want to pledge to you my support to fix the Crop Insurance Program and retain it as the preferred alternative.

I also share the concern Senator Dole has about the Farmers Home Administration and the Farm Credit System.

And finally, you said in your prepared testimony that you are going to submit a comprehensive flexibility proposal. I look forward to receiving and examining the details of that proposal and I would point out, as one final note, in addition to flexibility, that I hear over and over from my people that they want simplicity as well as flexibility. Flexibility will be meaningless if the program is so complicated that it requires a Ph.D. to understand it.

Thank you.

Senator BAUCUS. Mr. Chairman.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Mr. Chairman, I know you have an order here, and I would just ask consent to put my prepared statement in the record, because at a later time this morning I would like to come back and ask questions of the Secretary.[7]

We are now—at least at 10, we need to renegotiate with the administration on the Clean Air Act. I would like Senator Dole to come over so that we can speed it up so that we can get a resolution on this, as soon as possible.

The CHAIRMAN. At 10?

Senator BAUCUS. Yes, as soon as possible.

But with your permission, Mr. Chairman, I would like to put the statement in the record, and be able to ask questions.

The CHAIRMAN. Without objection.

I wish you, Senator Dole, and the others a great deal of good luck on the Clean Air Act.

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[7] See pp. 367 to 369 for the prepared statement of Senator Baucus.

Without objection, that will be done, and the Chair recognizes Senator Conrad.

[The prepared statement and letter of Senator Baucus follow:]

QUESTIONS OF SENATOR MAX BAUCUS

ADMINISTRATION VIEWS ON THE 1990 FARM BILL

February 7, 1990

1. I want to personally deliver to you a letter that Senator Packwood and I are today sending to you, Secretary Mossbacher, and Ambassador Hills.

This letter urges you to negotiate a strong, market opening solution to the current Section 301 investigation aimed at opening the Japanese market to U.S. processed forest product exports. It is signed by more than 30 of our colleagues, including Senator Mitchell and Senator Dole.

I hope this letter underlines, both to the Administration and to the Japanese, the great importance that the Congress attaches to these negotiations.

Upening the Japanese forest products market would result in additional $1 to $2 billion in U.S. exports each year. That means 10,000 additional jobs in the U.S. In my state, the forest products

industry desperately needs this new opportunity.

You did a great deal to open the Japanese market when you were USTR. I hope that you and the rest of USDA continue to play a strong and active role in these negotiations.

2. I am very disturbed with USDA's implementation of some of the provisions of the disaster bill of 1989.

One Administrative ruling regarding treatment of farmers who lost their winter wheat crop particularly disturbs me.

According to USDA, farmers who lost their winter wheat crop and replanted with barley or oats are eligible for disaster payments.

But farmers who lost their winter wheat crop and replanted with spring wheat are not eligible unless the spring wheat crop also failed.

That is an arbitrary and senseless policy. It is also completely counterproductive at a time when we are trying to encourage wheat production.

Unfortunately, this is not the end of the story.

Three months ago, I sent a letter to you protesting this decision. The letter was signed by 10 Senators.

Even after three months, we have recieved no answer. My staff has made no less than 10 calls to USDA over the intervening months requesting an answer. I am still waiting.

I have no choice but to today introduce legislation to address the problem. I will soon try to attach this legislation as an amendment to legislation that is moving.

I must protest in the strongest terms both the ruling and USDA's inattention to my request.

Frankly, USDA's inaction has been absolutely inexcusable and sets a poor precedent as we begin work on the farm bill.

LLOYD BENTSEN, TEXAS, CHAIRMAN
SPARK M. MATSUNAGA, HAWAII
DANIEL PATRICK MOYNIHAN, NEW YORK
MAX BAUCUS, MONTANA
DAVID L. BOREN, OKLAHOMA
BILL BRADLEY, NEW JERSEY
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WILLIAM V. ROTH, JR., DELAWARE
JOHN C. DANFORTH, MISSOURI
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STEVE SYMMS, IDAHO
VANDA B. MCMURTRY, STAFF DIRECTOR AND CHIEF COUNSEL
ED MIHALSKI, MINORITY CHIEF OF STAFF

United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510-6200

February 7, 1990

The Honorable Robert A. Mosbacher
Secretary of Commerce
14th Street & Constitution Avenue, N.W.
Washington, D.C. 20230

Dear Secretary Mosbacher:

We know that you share our view that expanding U.S. exports is critical for the long-term economic health of our nation. While the United States has made considerable progress in increasing exports, we must continue to press every opportunity to open foreign markets.

One sector that is well positioned to increase its already substantial exports is the United States' wood products industry. Our wood products industry is the envy of the world. It is extremely efficient and produces a high-quality product. Although the industry is a leading exporter to Japan, an array of tariff and non-tariff trade barriers prevent it from realizing its true export potential.

The fact that Japan's web of trade barriers against imports of wood products has been identified as a subject for "Super 301" trade negotiations indicates that the Bush Administration is well aware of the difficulties U.S. wood products exporters have encountered in achieving access to the Japanese market. We applaud the work and dedication your agency has so far applied in dismantling these barriers.

As the Administration enters its final stage of wood products negotiations with the Japanese, we would like to reiterate the great importance we place on a successful resolution of these negotiations and the complete opening of Japan's wood products market. Japanese policymakers at all levels must understand the significance of these negotiations and realize that the United States is operating under strict requirements imposed by our trade laws.

We ask that you keep us fully informed of your progress, and we stand ready to assist in any way possible to make these negotiations a success.

We have sent identical letters to Ambassador Hills and Secretary Yeutter.

Sincerely,

Max Baucus Bob Packwood

The Honorable Robert A. Mosbacher
February 7, 1990
Page Two

Jesse Helms

Frank H. Murkowski

Jim McClure

John Warner

Lloyd Bentsen

George Mitchell
Dale Bumpers
Carl Levin
Robert C. Byrd

Senator CONRAD. Didn't we have somebody on the other side first?

The CHAIRMAN. Early bird.

Senator CONRAD. Well, we are going just—strictly an early bird?

The CHAIRMAN. Going by the early bird——

Senator CONRAD. Well, I like that rule very much, Mr. Chairman.

The CHAIRMAN. In fact, to give you the rest of the order, it's Senators Fowler, Bond, Daschle, Boschwitz; Senator Baucus is going to come back later on; then Senators Cochran, Gorton and Pryor.

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. Thank you, Mr. Chairman. I will attempt to be brief.

I first want to thank the Secretary for his comments the other day on an incentive based system for the conservation portion of the farm bill. I do think incentives are terribly important in terms of getting the people we expect to implement conservation programs to be well motivated. It's a question of basic philosophy of how to deal with people. There are two different ways to provide incentives: one is heavy handed government interference and the other is a national priority that we go out and provide an incentive. I very much appreciated the tenor of the Secretary's remarks on that score. That's the good news.

There are other parts of what is before us that are very troubling to me as a representative of a State that is heavily dependent on farm income. First of all, I would say to you that there is a disappointment that the administration has not come forward with a farm bill. Second, I'm even more disappointed that the administration's budget proposal before us does not provide direction. It says to us, cut, but it doesn't say where to do it. Frankly, when I talked to my farmers, number one on their list is farm income, factors number one; number two; number three—farm income.

This proposal, as I read it, reduces farm income. I don't know how else you could read it. The cuts in the commodity program, combined with cuts in crop insurance, combined with cuts in direct loans add up to reductions in target prices. Even if we just froze target prices, the FAPRI analysis indicates we would see a 40 percent reduction in net farm income by 1995. This proposal, as I read it, would require us to cut target prices. In other words, the reduction in net farm income would, perhaps, be even more steep. So I believe the proposal before us fails to meet the income needs of rural America.

Mr. Secretary, my State is on the brink of the third year of drought. The headlines yesterday in the papers of my State were "Third Year of Drought." There has been no precipitation, virtually none, all of this winter. Suffice it to say, my State is in very deep economic trouble. The proposal to eliminate crop insurance, therefore, fell on deaf ears in my State. I must say the talk that I've heard is that farmers can't have it both ways. I don't understand that. We've not had a crop insurance program that worked, and so we were required to come forward with the disaster bill.

This is not limited to agriculture. It is part of the American spirit that when your neighbor hurts, you go to help out. We did it with Hugo; we did it with the earthquake disaster. There is no reason that we shouldn't do it when the heartland of America is hurt by a disaster.

Perhaps most important is that we are in a battle for markets worldwide. I believe this is really the most important test of our time. America is in an economic fight, and I applaud the proposal to expand EEP, but why would the Europeans ever believe that we are going to spend the money on EEP when in the most recent year, we spent less than half of what was available.

So, Mr. Secretary, as one who represents a State that is heavily dependent on what we do in this committee and Congress with respect to these issues, the proposals before us, in my judgment, flunk the test on farm income, and frankly flunk the test on being specific as to what the administration recommends.

With that, Mr. Chairman, I would yield.

[The prepared statement of Senator Conrad follows:]

Senator Kent Conrad
The 1990 Farm Bill
Hearing: the Administration's Views
February 7, 1990

I want to commend Chairman Leahy for holding this important hearing. I would also like to welcome Secretary Yeutter and look forward to hearing his testimony. I would like to note that at the last hearing Secretary Yeutter and I agreed on at least one issue -- that is that farmers respond better to the carrot than the club.

We have been given very little time to review the Administration's suggestions on the 1990 farm program, but combined with the President's budget I believe that we have enough information to judge this effort.

What do we need in a new farm program? First, we must be careful that farm income and the rural economy not be put through the economic wringer again as in the 1980s.

Second, we must put together a farm program which is responsible on the budget.

Third, we must have a farm program which sends a strong signal to the European Community that we are in this agricultural trade war for the long-haul.

Finally, we must develop a bill which responds to the environmental needs of agriculture and rural people.

There are, I believe, positive elements of this proposal. The proposals to use positive incentives for dealing with wetlands is a step forward, as are the proposals to use CRP for windbreaks and other conservation practices. This will allow us to achieve higher levels of conservation at lower

costs. In addition, the tree planting proposal is a positive step that follows the lead of the State of North Dakota.

I am, however, concerned about both the budget proposed for rural America by the Administration and the radical changes in the farm program advanced by USDA. First, concerning the budget, the Administration is proposing a massive cut in farm programs -- $1.5 billion from commodity programs; $400 million for crop insurance; and very large cuts in credit programs when many farmers are experiencing the worst drought since the dust bowl years of the 1930s. In addition, the rural development programs of the Department of Agriculture were gutted.

On farm programs, this budget will require cuts of 13 to 20 cents per bushel in corn target prices and 17 to 26 cents per bushel in wheat target prices. Those are extremely serious cuts. A recent study by the Food and Agricultural Policy Institute of the University of Missouri and Iowa State University found that freezing target prices would result in a fall in net farm income of 40% by 1995 as increases in the cost of production eliminate profits.

Clearly, this budget and program proposal fails to meet the income and rural development needs of rural America.

Concerning international trade, these budget and program proposals send precisely the wrong signal to the European Community. First, on the budget, I do not have to explain to the people here how important this is, but let me give you a couple of examples.

The EC guarantees durum growers about $9.00 per bushel -- approximately three times the U.S. market price. They are subsizing that production into North Africa -- a traditional U.S. and Canadian market -- and into the U.S. in the form of finished pasta products. Canada has found a place for their production -- the U.S. For the first time in years, durum is selling at a discount to other wheats.

In oilseeds, the EC has done even more damage. The EC guarantee on sunflowers is over $28 per hundred-weight, and on soybeans, over $15 per bushel. The EC production of oilseeds has boomed in the 1980s, while we have closed 22 oilseed processing plants.

I am aware that the USDA proposes an increase in the Export Enhancement Program. However, given the fact that the US has failed to use the amount allocated in the past, why should we or the EC expect that they will use it now? Even if all of EEP was used, it is less than the EC spends in a month to subsidize exports of grains and vegetable oils. In addition, to provide an increased EEP authorization, we will have to cut target prices even more. Finally, given the bureaucratic mess of the EEP program, I find it difficult to believe that anyone in Europe finds it a threat. WE ARE SENDING A SIGNAL THAT WE WILL UNILATERALLY DISARM.

The farm program proposal advanced by the Department yesterday is merely another version of decoupling. It is

well known from various academic studies that unilateral decoupling harms U.S. agriculture. While we would benefit from multilateral decoupling, that is not what we are doing. Once again, the signal to the European Community is that we are not going to be in the race. That we are willing to sacrifice our farmers and rural areas to subsidized European and Asian producers. THIS IS THE WRONG SIGNAL.

Most farmers want flexibility, but in poll after poll, farmers have opposed decoupling by overwhelming margins.

Finally, this proposal guarantees that oilseed prices will be much lower without any income protection for farmers who depend on oilseeds for their livelihoods -- I am talking about the farmers in states like North Dakota or Arkansas who have small program bases because they responded to the market in the early 1980s to produce sunflowers and soybeans.

In summary, when we grade the Administration's budget and program proposals for rural America, the Administration fails on farm income and the rural economy, fails in sending a strong signal on trade, but makes a start on environmental issues.

Combined, these program and budget proposals for agriculture and rural economic development increase the potential for a return to a rural recession. Something is missing in this agenda -- and that is concern for farm income and the rural economy. Farmers went through a terrible recession in the 1980s as net farm income (adjusted for inflation) fell to depression levels. Are we ready to do that again?

I am willing to work with the Department in developing a program which will send a strong signal on trade, which will prevent another rural recession, and which will be responsible on the budget. I ask that the Department assist us in this process by making available the resources of the Department in evaluating the costs and effects of various options in an open and cooperative manner.

I would hope that the Department would provide the Committee with an economic analysis of what this budget and program proposal will do for farm income, budget costs, our competitiveness in export markets, and its effect on the rural economy.

I look forward to working with the Secretary on the farm bill and to his testimony.

The CHAIRMAN. Senator Fowler.

STATEMENT OF HON. WYCHE FOWLER, JR., A U.S. SENATOR FROM GEORGIA

Senator FOWLER. Mr. Secretary, I will use just a minute to tell you that I, certainly among all of my colleagues, look forward to working with you on the bill, but also on an expansion of the success that we have seen, begun in the 1985 farm bill in the area of conservation. Certainly, I think the Conservation Reserve Program has been a success. I applaud the little that was just released yesterday, certainly not in the detail of your call for an expansion of CRP and wetlands policy and other areas.

I would be remiss, though, if I didn't mention to you that we do look to the Department of Agriculture, it seems to me appropriately, to make the case that, for lack of better terms in this cliche-ridden society, that environmentalists and farmers should in no circumstance ever be portrayed as antagonists, when the truth of the matter is that they are the most natural allies in stewardship of our nation's natural resources and in the case the farmer, the protection of his livelihood.

In the last few years, there hasn't been any rump groups running around. It's our own government that, bringing in the data, has identified, in 26 States now, hundreds of agricultural chemicals that have appeared in our ground water from natural and normal and accepted agricultural practices. And, of course, if that continues, then we've got serious health problems, as well as a problem that would undermine the three Conrad rules that we all adhere to wherever we have farmers: the profit, the profit, the profit, the farm income can be underminded, if that's the past tense, more quickly—I learned in my campaign in Georgia never to match subject and verb, so I sometimes lapse into——

[Laughter.]

Nothing could cause more difficulty more quickly than if all of a sudden we have called into question the safety of our food and water by natural farm practices. So we need your leadership; we really need your leadership. We have had these ag groups, some of them, agricultural groups, who have said, you know, they have been promoting best management practices but have said, we don't have enough research for any low-input sustainable agriculture. Then we have come up with some money for the research since I've been in the Senate. We send it over to the Department and it goes down to land-grant universities and goes down to our distribution bank and we never hear from it again; and in my State, and that's the only one I can choose to speak for with authority, we even have our own extension service telling the farmers that it will put them out of business if we even try this. Well, we know that's poppycock. But we need your leadership through the Extension Service, working with us, to put natural allies together so that we can improve our water, guarantee once again full food safety when the health concerns of the public will not go away, and this is a great chance for us to work together and prove that case in a voluntary manner that will be acceptable to the farmers and ensure their continued profit.

Thank you very much.
The CHAIRMAN. Thank you, Senator Fowler.
Senator Bond.

STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Senator BOND. Thank you, Mr. Chairman, and thank you for this opportunity.

Mr. Secretary, I congratulate you on the far-sighted leadership that you have shown since you have assumed the leadership of the Department of Agriculture. I want to congratulate you on a very comprehensive and thoughtful proposal for the 1990 farm bill. I have not been here for previous ones, but I understand this is far more detailed and explicit proposal than has been brought forward by an administration in a number of years.

To those farmers who would say they would like to get by without any program at all, I would say that the driving force in so much of this farm bill is the unfair trading practices, subsidies and barriers of the European community and other major entities. You know well how serious that challenge is and how that has taken away our foreign markets; we look forward to the day when the successful GATT negotiations with your very able successor will enable us substantially to reduce much of the current commodity program payments.

I congratulate you first on emphasizing planning flexibility. This is the one thing that our farmers throughout Missouri have said, they need more flexibility. They need it, number one, because they want to be able to plant for the market; number two, conservation compliance is going to require rotation of crops and, for the first time, we have, I believe, it is a workable means of achieving it.

Now, I'll be very interested to see the FAPRI analysis when it is complete on this program, and also what the USDA analysis is. I think it's important to note at the start that we don't pretend to say that farm income is only going to be what they get out of the mailbox. To the extent that we can change the farm program so the farmers can get better prices from the marketplace and get more income from the market than from the mail box, we will all be better off and farmers will be in a much stronger position.

Having said that about flexibility, I would add a word about soybeans. I am afraid that flexibility alone is not sufficient for soybeans. I know there is a possibility if you have a corn base you could get a corn deficiency program by planting soybeans, but I am very much concerned; I would like to see the numbers and I think that we are going to have to do something for soybeans beyond just giving flexibility for planting.

With respect to disaster assistance, I am delighted to see that you have also recommended getting rid of the FCIC. I can tell you that since I have proposed that I have had lots of visitors and we have started what I think is a very necessary conversation. I do not see in any manner or means the Federal Government getting out of the risk management program, assisting farmers who are hit with catastrophic or disastrous weather conditions that result in production losses. I think there is a better way to do it—maybe

some kind of hybrid. I think we can utilize private insurance for a portion and I think we can use a permanent government program for disaster relief in catastrophes. I understand that in Canada where they have a Federal crop insurance program, they still implement disaster payments. We might as well combine it into one program. We look forward to working with you on that.

In addition, we are very interested in your conservation title. My staff and I are working on a conservation title and will look forward to working with your staff. I think we can include many of your ideas, and we certainly agree on things like the CRP and multiyear set-asides. I am delighted that not only have you highlighted planting of trees, but the President's recommendation for planting a billion trees was thinking a lot bigger than we were. I will be happy to see how we can accommodate it. We also look forward to working with you on some grain quality initiatives. I thank you again for your thoughtful farm bill proposal and we are most interested to hear your discussions.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you Senator Bond.

[The prepared statement of Senator Bond follows:]

PREPARED STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Mr. Chairman, I commend you for your scheduling expertise—this afternoon's hearing comes on a day of great excitement in agriculture. This morning, Secretary Yeutter unveiled USDA's long awaited farm bill proposals. While I have not had a chance to review them thoroughly, it is clear that a great deal of work went into the document. Their proposals will no doubt add to the excitement of the 1990 farm bill. The provisions dealing with international trade will certainly add to this afternoon's hearing.

Agricultural exports remain one of the few bright spots of U.S. trade. In 1989, U.S. agricultural trade had a surplus of more than $18 billion ($40 billion in exports and $21.5 billion in imports), and supported 900,000 jobs. In Missouri, agricultural exports totaled more than $1 billion and accounted for approximately 30 percent of total farm marketings.

As we look to the 1990 farm bill it is important to review those factors which contributed to this resurgence in international trade. First, we should recognize factors such as the value of the dollar, growth in importing countries, and U.S. interest rates. While beyond the direct influence of this committee, these factors are extremely important. There is no doubt that the value of the dollar is crucial; despite increases last year, the value of the dollar has fallen significantly since 1985. In developing countries, foreign debt stifles growth and requires significant exports to generate much needed foreign currency. Finally, the massive U.S. Federal budget deficit increases interest rates—making our producers less competitive.

At the same time, however, programs authorized by the Food Security Act of 1985 have no doubt been successful in restoring international competitiveness. This success is the result of a combination of lower loan rates, subsidized sales, promotion programs and credit guarantees. Have they been expensive? Yes. Are they worth the expense? Yes.

However, we have to realize that we do not compete in a free market. Our policy to counter the subsidized sales of our competitors, primarily the European Community, is working. It makes no sense to let up now. To the contrary, I believe we should be looking at ways to strengthen our export programs. At the same time, I believe we should be looking for ways to minimize the adverse impacts of these sales on third-party countries.

The 1990 farm bill provides an opportunity to review our current programs and make improvements. Maybe we can find ways to make them more cost-effective. Maybe we should devote more resources to value-added exports. Is there enough funding for the GSM-102 and 103 programs?

Recent events throughout the world suggest that vast new opportunities are developing. As the most productive nation in the world, the United States should posi-

tion itself to take advantage of these opportunities. It is true that many of these markets are not mature, however with our help they may one day become cash customers of American agricultural products. I believe Secretary Yeutter understands this and is willing to work in this direction.

Mr. Chairman, I would like to briefly explain a very successful new initiative in Missouri. A few prominent producers, our Director of Agriculture, Mr. Charlie Kruse and Governor Ashcroft have fostered some close relationships with agricultural leaders in the Soviet Union. These relationships, unheard of prior to peristroika, have fostered genuine goodwill and friendship.

Not long ago, a Soviet agricultural delegation from the Ukraine spent a week touring the Show Me State. At the conclusion of their visit, a barter agreement was signed in which we would trade the Soviets soybean meal for fertilizer. And this is only the first step. It is my understanding that the Soviets are interested in several other Missouri products.

Although this type of agreement doesn't receive the same attention as the opening of a McDonald's, it is nonetheless very important.

Mr. Chairman, thank you for scheduling this afternoon's hearing and I look forward to hearing from our distinguished witnesses.

The CHAIRMAN. Senator Daschle.

STATEMENT OF HON. THOMAS A. DASCHLE, A U.S. SENATOR FROM SOUTH DAKOTA

Senator DASCHLE. Thank you, Mr. Chairman.

I want to associate myself with some of the remarks of Senator Bond with regard to setting as a goal in this year's farm deliberation that we try to devise policies that will ensure a greater income from the marketplace and a less reliance on subsidy; and I appreciate your willingness to come forth, to be as accessible as you have been to lay out many of your thoughts, as you have in the proposal today.

I am especially interested in research, and in giving additional resources to the competitive grant program, and the formula funding program. We need to put more emphasis on consumption research, instead of on production. Like Senator Bond, I am especially interested in grain quality, and I hope that improving grain quality, too, will help farmers derive a better income from the marketplace. You address that, too.

As I traveled in South Dakota in the last couple of months, the concerns that farmers expressed to me were first, as Senator Conrad said, income and, second, flexibility and third, of course, their ability to maintain some degree of management with regard to the grain once it's produced. As I examine your proposals, I'm encouraged that you have addressed those areas. I am a little concerned however, that you have given us a fill-in-the-blank proposal. We really don't know what the administration's position is on target prices and loan rates. I hope we can develop a better understanding in this hearing today.

Second, with regard to flexibility, while I am very encouraged with the fact that you address it as well as you do, I am concerned that your proposal appears to be a decoupling proposal. If that is the case, we are going to need to talk about that a good deal and perhaps have some debate with regard to whether or not that makes a good deal of sense.

Third, with regard to on-the-farm storage, the farmer-owned reserve, I am concerned that the proposal as it is today would really eliminate the opportunity for farmers to have a reserve, and if that

is the intent of the administration, we would want to spell that out very specifically as well.

Farmers want the reserve as another tool to obtain better income from the market, rather than from the Government. So I hope that we can address all of these issues. But you've given us a book. Frankly, I think it is a book at this point without a plot. I hope we can work together to write a plot that is successful and ultimately brings about the better income.

The CHAIRMAN. Thank you very much.

Senator Boschwitz.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. Thank you, Mr. Chairman.

You have indeed given us a book, Mr. Secretary, and I think it is a very well organized book. It doesn't cross every "t" and dot every "i" and I don't think it's intended to; but it is a most helpful presentation and a very well organized one. It's far beyond the scope of what we have previously received, and I thank you for it.

We address this farm bill at a very meaningful time in history, a time when we see many countries of the world moving away from planned economies and communism. Those systems have failed. Our own economic system is serving as a beacon for those countries and the farm bill that you propose and about which I have spoken also, fits into that mold very well. Flexibility, giving the farmer some choices, while continuing many of the strong aspects of the 1985 farm bill, but making it more market oriented is a way that we should go. I commend you for following that path.

I outlined my idea on flexibility in a floor speech on November 8. Senators Lugar and Leahy have also done the same thing before the Senate with a few differences. I think that the administration has adopted parts of those flexibility proposals. You don't go quite as far as I do on ARP's. As you know I'm not much of a friend of set-aside programs; I think the concept has very little to support it in the areas of conservation. Laying aside farmland only makes the production on the remaining land more expensive.

I know that you haven't outlined the target prices, but I hope that as we develop that conversation that we may have different ranges of target prices: as the ARP's go up, the target prices go up. In that way, perhaps the folks over at OMB will be discouraged from suggesting large ARP's in the hope that it is going to some way constrain production, which it has not in the past.

Yesterday, in a speech on the floor, I noted the differences in acres that became part of the program when ARP's were increased acres that became part of the program were increased. Somehow, additional acres were found. So that in that section of the bill we have more to do.

I'll also be proposing that with respect to storage payments, farmers will receive the same rates as commercial storage entities. Farmers have the same responsibilities in maintaining grain and government storage, yet they receive only about 80 percent of the commercial rate, without an in and out fee to boot. I would like to

see the two groups equalize. Really, that's something of basic fairness.

I like the conservation and water quality proposals that you have put forth. The whole business of flexibility really lends itself to conservation programs because it is hard to get the right type of rotation and the right type of land use when you are compelled to plant what the program demands. We are on the right road there.

I am happy to see the administration proposal with respect to these areas as well. In international trade, continuation of EEP, I agree with my colleagues, is an absolute necessity. Senator Gorton and I have talked about the possibility of creating a penalty for European countries that abuse the environment. It may be that we want to establish—I'm not quite sure how this would conform with GATT rules—some form of offsetting tariff or EEP. That would address some of their huge uses of fertilizers and things that do such damage to the environment.

I hope in the area of dairy policy we go further than was put forth in your proposal, though I like the staged approach that you have used. I agree with some kind of a sliding scale support adjustment. We also should examine the issues of reconstitution and whether the current market order system is necessary in light of today's technology and transportation system. I know I am going to get support from the chairman in my efforts in that area.

The CHAIRMAN. We'll chit-chat a bit.

Senator BOSCHWITZ. Thank you, Mr. Chairman. I knew that you would rise to that.

Crop insurance has been inadequately discussed, I think, and I, too, was intending to look more thoroughly at that. All in all, the proposals, I think, provide the committee with a very firm basis for discussion of the key issues of the 1990 farm bill, and I will be an active participant in that debate. In our part of the country rather than a good farm bill, we would like some moisture. If you can do anything about that, it would be greatly appreciated.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Boschwitz.

Senator Cochran.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. Thank you, Mr. Chairman.

Mr. Secretary, welcome to the committee. We are glad you are here; we appreciate your coming forth with some proposals; and I am hopeful, and I will predict, that those proposals will get a fair hearing in this committee. I hope the chairman will ensure that and I think he will. And after we complete the fair hearing, we will probably enact something else. [Laughter.]

But I think we should carefully consider some of the observations that are made in these proposals, and I am serious about that. We ought to get away from the notion that the only way we measure farm income is the level of government subsidy, and I think that we have many farmers who realize that they are better off not depending upon the Government solely for their income, but to try to derive income from the marketplace through aggressive marketing

and promotion activities, and I think that's why we passed the checkoff bill last year in the Senate, to give farmers an opportunity to use their funds in a way that would be actually reviewed, managed in some respects by the Department of Agriculture to expand their markets and develop greater income in the sale of their products in that way. So I think it is well documented that that's not the only way we get income to the farmers who are producing commodities in our country.

As a matter of fact, I looked at a list of agriculture producers from the State of Mississippi ranked by level of cash income in our State, and the first two are not subsidized: tree farmers and poultry farmers. And we have a cattle industry that is very important to our State. They don't receive direct subsidies. We have catfish growers who are becoming more and more prominent in the economic life of our State. They are not subsidized either. But the point is this: we need a balanced farm program and a balanced approach. It is important to have foreign programs in some of our commodity production activities because they help stabilize the market, give us a predictable level of supply, help even out the boom and bust cycle that we'll see as a result of natural disasters and also marketing disasters. Those are just as severe for farmers as other kinds of disasters. And so there is a need for farm programs because they are helpful as marketing tools; and so I hope we do consider the suggestions you made and take a look at what our needs and not just those who are directly dependent upon the commodity programs, but all of agriculture and all of our consumers as well in our economy generally.

But I look forward to working with the other members of the committee to sort through all of this; it's going to be a big challenge, but I think we can come up with a good bill, and I'm looking forward to continuing to work with the Secretary in that effort as well.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Cochran.

Senator Gorton.

STATEMENT OF HON. SLADE GORTON, A U.S. SENATOR FROM WASHINGTON

Senator GORTON. Mr. Secretary, you have now listened to almost an hour of advice without being able to report anything to it, pretty solid advice, though not entirely consistent as we went up and down the table. I've sat here reflecting what it must be like in the comparable committee in the House of Representatives. It may be well into the afternoon before you get to speak there. [Laughter.]

I should like to start by saying how much I have appreciated your leadership in the Department of Agriculture over the course of the last year. I have a high degree of confidence in your background and experience, in your good judgment and in your sense of fairness, all constrained, however, by some of the restraints under which you operate as a result of the Office of Management and Budget; and it is clear that a number of the decisions that you have made in here might have been somewhat different had you

not been subject to such constraints. So I will join with the other members of the committee in congratulating you on this start and, for my purposes, raise only one or two questions.

The whole idea of planting flexibility is a positive and affirmative one. The phrase even sounds very good. I must share with you some concerns, however, on the part of those farmers and ranchers who do not have a great deal of flexibility in connection with the uses to which they can put their hand. If you are a producer of wheat and/or barley in eastern Washington and really can't use that land for anything else, the immediate concern with planting flexibility is that in bad years, your income isn't going to be very good because there will be an oversupply, and in years which would otherwise be good, other people will be growing so much of your only commodity that you still won't be able to make up for those bad years.

Given my confidence in your judgment, and your sense of fairness, I hope that, as we go through this process, you will reflect on that problem. It is not a localized one. There will be a large number of farmers in many parts of the country who will not have the ability to be as flexible as many others. In each case, because it is such a cyclical industry, you need to have good years to make up for some of the bad ones.

One brief comment on the abandonment of crop insurance. I assume that this may simply stem from a philosophy that we tried and tried and tried and it has never worked out very well, and we end up spending time and effort on crop insurance and then passing major disaster relief bills in any event. So, why not just go to disaster relief.

I am inclined to think that something of a counsel of despair, and I would hope that we could come up with some kind of solution in which risk assessment can be involved in which intelligent decisions can be made in advance, and do not have to deal with each of these disasters on an ad hoc basis.

I must also confess that I am not at all certain exactly what that solution is. But if it is possible to reach a solution and not simply abandon what in theory, at least, has been a very good and a very wise idea, I hope that we could do some.

Mr. Chairman, I thank you.

The CHAIRMAN. Thank you.

Senator Pryor.

Senator PRYOR. Mr. Chairman, I yield my time to the Secretary. Thank you.

The CHAIRMAN. My gracious. [Laughter.]

Boy, I tell you, Arkansas is going to come out pretty good in this farm bill. [Laughter.]

If there was one little thing left for Vermont, it just went to Arkansas. I could have done that one.

Senator HEFLIN. Now, if you keep talking, I am going to talk. [Laughter.]

The CHAIRMAN. Senator Heflin.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator HEFLIN. Thank you, Mr. Chairman.

One thing I think as we look at the farm bill, that is the effect of the Gramm-Rudman deficit reduction on low grade target prices.

I think many of us, if we had a crystal ball, would foresee in the next 3 to 4 years a substantial reduction of military spending if Gorbachev survives and if he proves sincere.

It means that the deterrent toward the use of Gramm-Rudman's question from the viewpoint of those that believe a strong military may not be as much of a deterrent, and that if we have to protect, we would probably predict its sequester will take place, perhaps each year for the next 3 or 4 years. I think this would have a disastrous effect on loan rates, which really is questionable as to whether or not on a reduction that comes about from a sequester to the Department of Agriculture has to be used in loan rates, and in other types of programs that we might have.

And I think that this ought to be given some consideration in regards to the farm bill.

Another item is that unless you recommend doing away with the crop insurance, that there is no budgetary mention so far of anything for disaster.

Now, does that mean, which probably took place, that the disaster payments were paid for out of savings because of the drought and the effect of those.

Now, what the effect of this might have relative to a future and future disasters, I think these items that have not been mentioned that we ought to give some consideration to.

The CHAIRMAN. Senator McConnell.

Senator MCCONNELL. Mr. Chairman, I think Senator Pryor started a fine precedent here. I came over to hear the Secretary, and I am looking forward to it.

The CHAIRMAN. Before anybody else even comes in here and seeks recognition, Mr. Secretary, we are delighted to have you here, and the floor is yours.

STATEMENT OF CLAYTON YEUTTER, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC, ACCOMPANIED BY SCOTT STEELE, DEPUTY DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS; JON KISLAK, DEPUTY UNDER SECRETARY; AND JOHN CAMPBELL, DEPUTY UNDER SECRETARY

Secretary YEUTTER. Thank you, Mr. Chairman. A special thanks to Senators Pryor and McConnell. [Laughter.]

You guys know how to do it every time. And, Mr. Chairman, many thanks to you for your support of the tree planting initiative. I am delighted with that.

I would, as a preference to this discussion, mention the tree planting program. As you know, my wife Jean has been involved in this effort, and she reminded me the other night that if we are going to plant a billion trees a year for 250 million people, that is four per person. So you are going to have to put in four instead of one.

The CHAIRMAN. I will put in three more.

Secretary YEUTTER. All right.

The CHAIRMAN. I will dedicate those to Senator Lugar.

Secretary YEUTTER. Thank you.

And, Senator Kerrey, I am not sure I am prepared this morning to concede that all errors are those committed by the executive branch of government, but we will not debate that today. I think we have higher priority issues before us at the moment.

I would also add that you are correct, that Senators and Congressmen do spend a lot of time back home, and you do get excellent input from your constituents. And we appreciate having that input brought in to us because it is valuable. And you are an excellent listening post.

But I want you also to know that I get out occasionally too, and I do not want anybody here to have the impression that the Secretary of Agriculture is sitting on his derriere in his office all day every day not touching base with farmers.

I think I was in my office 4 workdays in the month of January. So it is important for the executive branch to get out into the country, and I have been trying to do that as well.

But back to the subject at hand. As some of you have indicated this morning, we have really done a lot of work in preparation for the farm bill debates of this year. I suspect maybe more than ever done before in the Department of Agriculture. Under Secretary Crowder, and Deputy Under Secretary Campbell did a lot of this, but we had a very substantial number of people participating, a huge input. Senator Kerrey and others from the private sector as we developed all of this.

It has been a massive effort on our part, culminating in the preparation of this green book, as we call it, with 70 or so proposals. And we do hope you will look at these with care and attention as the weeks unfold.

And I would add, to all of you, and particularly to you, Mr. Chairman, we have already prepared draft language on every proposal in here that requires draft legislation and we are ready to share that with you when the time comes.

And, I think we have done our homework in preparation for the debate.

FIRST OF ALL, WE DID USE THE 1985 FARM BILL AS THE BASE

Now, I would like to just highlight what we have attempted to do in here. First of all, we did use the 1985 farm bill as the base. Senator Dole commented on that at some length here earlier this morning. We agreed that the 1985 farm bill has been a significant success in agriculture, and that what we ought to do is build on it. And these proposals are intended to be modifications of the 1985 farm bill.

My instructions to our people were to come back and tell me how we can operate the 1985 farm bill better than it has been operated the last 5 years. And if, in the next 5, we can make that basic legislation perform more effectively and be administered more smoothly, then that seemed to me the proper way to go, and that is what we have tried to do in here.

FLEXIBILITY

Now, as to some specific provisions, clearly flexibility is an issue that is of a lot of interest to everyone. And as you can see, we have developed a very comprehensive proposal on flexibility. It does not differ a great deal from the proposal that was surfaced by Chairman Leahy and Senator Lugar some weeks ago, and also by Senator Boschwitz. And for your benefit, Senator Daschle, that assuredly is not decoupling. It is not intended to be decoupling. In fact, it was deliberately drafted in such a way that it would not carry that baggage with it. If people are attempting to describe it in that manner, that is really not an accurate description.

ARP AND NCA

We have tried to build in substantial flexibility both in terms of how ARP acres would be handled or could be handled, and in terms of how normal crop acreage could be handled, with those decisions being based on market conditions and being made by farmers.

WE HAVE TRIED TO GET RID OF SOME OF THE MICROMANAGEMENT OF AMERICAN AGRICULTURE BY GOVERNMENT

In a lot of the provisions that we have in here, we have tried to get rid of some of the micromanagement of American agriculture by Government. That may not be in the best interest of the Department of Agriculture from those who would like to see the Department run everything in the world. But the fact is I do not believe in that. I think we have had too much micromanagement for a substantial number of years. There is too much micromanagement in the 1985 farm bill. And one of the things we have tried to correct there is that very challenge.

And flexibility, the flexibility provisions here move more of that decisionmaking back in farmer hands where we believe it should be.

OILSEED CROPS

We have also tried to work with the soybean problem, Senator Bond, or the oilseed problem, if we can call it that. And maybe, as you suggested, more is necessary to level the playing field for the oilseed crops. But this flexibility provision goes a long way because it, in essence, puts the oilseeds in the same category with feed grains and wheat and the other program crops in most respects, not in all respects, but in most respects.

Without doubt, it takes out a great deal of the tilt toward feed grains and puts soybeans, if not on a totally level playing field, a lot closer than it was before.

We do not have time to go into all of the aspects of the flexibility provisions. I am sure you all will have an opportunity to digest them later. They are not sacrosanct. There are other ways to deal with flexibility too. But we do believe we have articulated some options here that make a lot of good sense from the standpoint of the way farms run in this country.

STOCKS POLICY

On stocks policy, we have done two things. One, in terms of acreage or reduction programs, we moved from handling those on the basis of stock levels as they are today in many cases to the use of stocks-to-use ratios in all cases. And our judgment, Senator Boschwitz, is that if we are going to have acreage reduction programs which do have the downside that you pointed out in terms of production efficiencies, that there ought to be a rationale for them. And we ought to modify the 1985 farm bill in whatever ways are necessary to make rational decisions with ARP's, and not decisions that are simply budget driven in some cases but do not make good policy sense.

We believe our stocks-to-use ratio does make good policy sense because that adjusts the anticipated levels based upon what is happening in domestic demand and international demand for the product.

But the other element of stocks is the farmer-owned reserve, which was mentioned by some of you this morning. We will undoubtedly have a substantial amount of discussion on that topic here as this debate unfolds. But the fact is the farmer-owned reserve, as it is presently constituted, has some very significant shortcomings. One is that we have isolated those reserves from the marketplace inordinately.

We had a major disaster in 1988 with the market calling for product and we could not get it there. We lost market share internationally because we had some of the product tied up in a reserve program rather than moving it to the market when we needed it to go to the market to protect our market share internationally.

It is not the kind of mistake, I can tell you, the Japanese would ever make on anything. And we ought to learn not to make those kinds of mistakes either. In addition to which, it is a classic example of micromanagement by government. It is complicated. Somebody mentioned the need this morning for greater simplicity, and I fully agree with that. Here is a good example where the program is by no means simple. It is exceedingly complicated, and much of the decisionmaking is with us rather than with farmers.

We tried to redesign the farmer-owned reserve to counter some of those shortcomings.

DISASTER ASSISTANCE

Disaster assistance, that has been mentioned by many of you here this morning, and it is a complicated subject. And I believe, Mr. Chairman, you are going to deal with hearings on crop insurance and disaster assistance later, so there is no need to go into detail on the subject this morning. But I would like to just give you a bottom line conclusion as to where we came out on that and the reason that we suggested a permanent disaster solution.

My judgment is that if we implemented every recommendation of the Commission on Crop Insurance, and many of those are very worthwhile recommendations, my judgment is that if we implemented every one of those, that we would still not achieve levels of participation anywhere near high enough to avoid superimposition of disaster programs on top of crop insurance.

I simply do not believe that with the Crop Insurance Program as presently constituted, or anywhere near the way it is presently constituted, that we can avoid having a double program. And I simply do not see how we can afford a double program, and I do not see how we can afford to have a crop insurance program with even higher Federal subsidy levels than they have today.

Where are we going to find the money? Do we take the money out of price and income supports and put it in crop insurance? I doubt there are very many people sitting at this table that would choose that route.

It seems to me, Mr. Chairman, the bottom line, and we can expand on this in later hearings, the bottom line is that we either go to a crop insurance program with many mandatory features, or we go to permanent disaster assistance, one or the other. I do not believe we can get the job done with a voluntary crop insurance program.

ENVIRONMENT

Let me switch to the environmental side. The environmental issues were mentioned by several of you this morning, and appropriately so. My view is that this green book includes more proposals that are environmentally friendly and supportive than anything that has ever come out of any administration in the past, and appropriately so.

And, interestingly, even though some in press statements this morning criticized these proposals as being inadequate and inordinately modest, it was interesting to me as I compare our proposals with those that emerged from the environmental community yesterday in their farm bill 1990 title.

The major ones are essentially identical. There is far more consensus on these subjects than apparently meet some eyes at the moment. Some very critical changes are described in both proposals and I will mention those very briefly.

MULTIYEAR SET-ASIDE PROGRAM

One is a multiyear set-aside program, which we suggest adding for the first time. My judgment is that we are not getting adequate cover crops on our set-aside. And we have designed here a proposal that would call for farmers to put half of their set-aside in cover crops, either permanent or annual cover crops. If they go to permanent cover crops as they should, as we would hope they would for a large portion, we will cost share on the permanent cover. That should be exceedingly beneficial and would impact in a very positive way the environmental dimensions of several million acres of land in this country.

CRP

With respect to the Conservation Reserve Program, as most of you know by now, we suggested here that the timeframe for the CRP be extended through 1995, an additional 4 years. We suggest that we stay with a 40 million acre target that has been articulated by the Congress. But we are also suggesting a redirection of the CRP into much more environmentally sensitive areas in the re-

maining acreages. One of them is the whole ground water area. That is mentioned in the proposals yesterday by the environmental community. And we have a number of ground water programs that are in the green book.

WETLANDS RESTORATION, WINDBREAKS, AND SHELTERBELTS

Another one is on wetlands restoration. That is also mentioned in both publications. A third one that we have added is doing some additional things with windbreaks and shelterbelts.

NEW CONSERVATION RESERVE CONTRACTS

A fourth one is for new conservation reserve contracts. Even when that land goes back into production, it would have to meet some of the erosion T-values. We have also put in provisions that would encourage people to keep this land out of production by protecting their crop bases if it continues on in permanent cover in the future.

Adding that to the flexibility provisions, which clearly have environmental benefits, it seems to me that we have a very substantial environmental package, Mr. Chairman, and one in which we can all be very proud, and one which reflects substantial compatibility with the desires of the environmental community.

FOOD PROGRAMS

A couple of other points: On food programs, we will attempt to tighten up the administration of the Food Stamp Program. And we have recommended to you here more severe sanctions for violations, particularly by retail establishments in the food stamp area. We are concerned about that and we believe it requires a harsher response than has been followed in the past. And, we hope the committee will consider that.

I am not suggesting that the Food Stamp Program is riddled with fraud. That is not the point. The point is we ought to try to avoid food stamp fraud, and there ought to be sufficient deterrent in the program to keep it from occurring.

SOME IMAGINATIVE PROPOSALS IN HERE FOR THE HOMELESS IN THE FOOD PROGRAMS

Finally, there are some imaginative proposals in here for the homeless in the food programs that, in my judgment, deserve attention here.

On the export side, there has been a good bit of discussion about the need to extend the EEP program, export credits and so on. I will not go into that.

GRAIN QUALITY

The one item that may deserve particular mention is the question of grain quality that I believe Senator Bond or someone mentioned, and that is we suggested that we do aflatoxin testing on all exported corn. We are already doing about 90 percent of that because of concerns over aflatoxin that emerged in the aftermath of the 1988 drought and some in 1989. It seems to me that we can add

to our reputation as a quality supplier of grain if we just test it all, and we are suggesting that testing be mandatory.

FMHA

And then, on Farmers Home Administration, and we have tightened down credit standards and a number of other provisions. You will see a whole host of provisions in this book relating to the administration of Farmers Home. Our judgment is that it is time for this committee to tackle those. I do not expect a savings and loan kind of a problem or challenge to emerge in the Farmers Home Administration. Those programs are costly too.

Senator Lugar and I were talking about this yesterday, a lot of folks seem not to recognize that the losses on Farmers Home loans, somehow come out of the taxpayers' pockets. But the fact is they do. And we are today on an annual basis writing off loans that should not have been made a decade or so ago.

And to just put this in perspective for you, look at price and income support programs and the other dimensions of our budget, and the challenges that we have under Gramm-Rudman. The writeoff for Farmers Home loans in fiscal year 1991 will be $10.3 billion. That is an all time high, and that is a lot of money. We ought to be able to do better than that in the future, and I certainly hope we can.I will not go into the details of the submissions on that point.

PUBLIC LAW 480

On Public Law 480, Mr. Chairman, you mentioned your desire and willingness to work with us in an overhaul of that very important program. It is a program, as you well know, that is even more important now in light of what is transpiring in Eastern Europe and elsewhere in the world.

So it is time for an update. We do not have views in the green book on that yet, because we have been working on that intensely in an interagency process. We will surface those recommendations to you just as soon as we possibly can.

WITH RESPECT TO THE BUDGET

With respect to the budget, there have been a number of you saying this morning that you would like to know where all this leads in terms of target prices and bases and so on. And my answer to that is that we cannot tell you what our proposal means for price/income support numbers for fiscal 1991. The administration did submit to the Congress a few days ago a budget of $10.2 billion for fiscal 1991 farm program spending.

Our expenditures for price and income supports for fiscal year 1990 are going to be $8.2 billion. So we will have available to us an additional $2 billion for fiscal 1991. That, however, is $1.5 billion below baseline. And so when you have seen the stories lately that said that there is a cut in the administration budget of $1.5 billion, that is true as compared to baseline. That is somewhat misleading for those who do not fully understand baseline budgeting because the fact is, in real world terms, the number is $2 billion higher than what we will spend in fiscal year 1990.

Now, how do we use that $10.2 billion in terms of what can we do in the way of target prices? Well, that depends on how we handle all the other variables. What we have to do in this committee and in your committee's deliberations with Budget Committees as well, and their deliberations with OMB, is focus on how we can get the most bang for the buck out of that $10.2 billion.

And we would like to sit down and discuss that with you and work that out together. We can adjust target price levels. We can adjust payment base levels. We can adjust payment limitations. Those are the three variables that one of you mentioned here this morning. I believe it was Senator Lugar. And there are a couple of other additional ways of dealing with this.

What we need to do is figure out what we believe would be in the best interest of U.S. agriculture in the handling of the budget constraints that exist. The budget constraints are not going to go away, either for the committee or for the Secretary of Agriculture, and that is why we need to work together on those.

Mr. Chairman, that is enough.

[The prepared statement of Secretary Yeutter follows:]

STATEMENT OF
CLAYTON YEUTTER
SECRETARY OF AGRICULTURE
BEFORE THE
SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
FEBRUARY 7, 1990

Mr. Chairman and Members of the Committee, I welcome the invitation to appear today to discuss the 1990 Farm Bill. The making of farm policy in 1990 will be truly historic. The road that we take over the coming months will be vital to U.S. farmers, the American public, and, in fact, the world.

As you know, we have been working very hard at the USDA and within the Administration for many months to develop proposals that we believe will best serve our nation's food and fiber industries and all Americans. Yesterday we unveiled our ideas. This morning, I would like to bring into focus the more than 50 initiatives we are proposing as modifications to the 1985 farm bill.

From the start, one goal has been to develop a set of proposals which recognize that U.S. agriculture operates in a world marketplace. Our policy must be one that commits U.S. agriculture to compete, because without greater access to foreign markets U.S. agriculture will stagnate. We have sought also to be sensitive to environmental concerns.

We believe that the 1990 farm bill should be based on the Food Security Act of 1985. We propose continuing the market oriented transition of that legislation. That calls for provisions which ensure that farmers respond to market signals, not government programs. Our proposals on price support

programs, stocks policies, planting flexibility, and credit are all designed to strengthen the link between market conditions and farmers' decisions.

Providing farmers more planting flexibility must be a key element of the 1990 farm bill. We will submit to you a comprehensive flexibility proposal which should enhance farm income while simultaneously fostering environmentally sound production practices.

Perhaps no set of agricultural issues will receive more scrutiny during the 1990s than the relationship between agricultural production and conservation and environmental concerns. We are, therefore, proposing a broad-based environmental initiative that includes research; education; land management and acreage retirement programs directed at water quality, wetlands, wildlife, trees, and erosion; a multi-year set-aside; and the more flexible production alternatives I have already mentioned. We have crafted these proposals to target specific areas and problems so that environmental benefits are maximized without undermining the competitiveness and productive capacity of U.S. agriculture.

USDA has been known as the "People's Department" for 127 years, and as we begin the last decade of this century, we find that spending on food and nutrition programs accounts for half of our budget. We propose full funding for USDA's domestic food assistance programs for the needy. In addition, we will strengthen and improve food program administration. We also

propose a number of changes in our marketing and inspection service programs to improve their effectiveness in assuring the safety of the nation's food supply.

Virtually all indicators of farm sector well-being have improved since 1985. Farm income is up, farm failures are down, farmland values are recovering, and debt-to-asset ratios have improved. Commodity surpluses have all but disappeared, some idle land has returned to production, and farm program spending is down.

We have a unique challenge in 1990. U.S. farm policy will be written while our government concurrently engages in the most significant multilateral trade discussions ever. However, it would be incorrect to state that farm legislation will be unaffected by the GATT negotiations or that the GATT will not be affected by actions taken in Washington. Clearly there is a relationship between these two imortant initiatives. As the world's major agricultural exporter, changes in agricultural trading rules will obviously affect the United States--and we intend to do everything in our power to make sure these changes are for the better. They can only get better.

The dominant issue in both the multilateral trade negotiations and the 1990 farm bill is the same--a stronger agricultural economy for America. Our farm bill proposals, which combine increased production responsiveness, aggressive export assistance targeted at unfair competition, market-oriented loan and storage programs, and greater research funding should signal

to our competitors the resolve we have to compete in world markets.

Last week President Bush presented his FY 1991 budget to the Congress. There is a small increase in the overall USDA budget, and new initiatives for research, water quality, and food safety. Nevertheless, there are real limits on the amount of available Federal resources. As you know, the Gramm-Rudman-Hollings law calls for a reduction in the federal deficit to zero in FY 1993.

For FY 1991, which will largely be unaffected by the new farm bill, the budget specifies a baseline spending cut of $1.5 billion in farm price and income supports. However, even with this reduction, outlays for price and income supports are expected to be $2 billion more than in FY 90. Our goals for fiscal policy mean that greater savings must be achieved in the farm programs throughout the nineties.

We have not proposed specific changes for achieving budget savings but Chapter V of the President's budget summarizes some of the approaches we have in mind. Target prices and/or payment bases could be reduced; or payment limits could be tightened. All of these can affect deficiency payments. We prefer to work with the Congress in determining the most propitious way to the achieve the necessary budget objectives within a sound policy framework.

Mr. Chairman, I would now like to discuss some of the proposals in more detail.

Price and Income Supports

Our top priority in the price/income support area is to reduce the rigidity of present programs. We have learned how costly it can be to design programs based upon assumptions and expectations which do not materialize. We believe our new proposal is adaptable enough to deal with any eventuality, whether surplus or shortage.

Our production flexibility proposal uses the concept of normal crop acreage (NCA). We propose to make deficiency payments on historic cropping patterns, regardless of which NCA crop is grown in the future. This means that producers will make planting decisions among NCA crops based on market prices, not target prices. Production will then be more responsive to market conditions, i.e., we'll have greater production of crops in scarce supply and lower production of crops in surplus. This should also foster a greater use of crop rotations with their attendant environmental benefits. The cost to the nation's economy of vast idled acreage would be reduced, because we would permit planting on idle acres under certain specified conditions.

All of us have puzzled over how to deal with stockholding policies. We believe that our proposals will provide significant improvements in this difficult area. The basic thrust of our approach is that decisions by farmers on when to store and when to sell should be determined more by market forces and less by government decree. We propose to accomplish this by shortening the farmer-owned reserve (FOR) contract period to 9-12 months;

eliminating price or quantity triggers for entry or release; eliminating the required FOR minimum quantity levels; and establishing a standardized minimum CCC resale price for commodities acquired through price support activities. The effect of these changes will be to accommodate the storage of a considerable quantity of grain from one year to the next, but defer to the farmer decisions on when to store and when to sell. In addition, these changes will eliminate a complex array of adjustment formulas, rules, and regulations.

We are proposing that the formula for adjusting loan rates for feed grains and wheat be used also for cotton and rice. There is no sound reason to continue the inequities represented by the rice and cotton loan rate minimums. These changes will allow cotton and rice loan rates and market prices to be more reflective of actual market conditions.

We propose no changes in the soybean price support program. But soybean growers should benefit from our flexibility proposal under which soybeans will for the first time compete with other crops for acreage on the basis of relative market returns.

Milk price support adjustments in the dairy program have played a positive role in reducing the surpluses and high program costs that saddled the dairy industry just a couple of years ago. We offer modest revisions that will allow us more flexibility to respond to changes in supply and demand conditions, as indicated by the expected volume of dairy products acquired by the Government.

We propose changing the peanut program so that the support level is no longer a function of the cost of production. Peanut supports should be more consistent with other programs and more closely aligned with market prices. We also propose bringing the wool and mohair and honey programs into conformity with our program crops by shifting income support to the target price concept.

International Programs

Our proposals for export programs build on the progress that has occurred since the passage of the 1985 Act. We are proposing to extend the programs which have been instrumental in that task, and we are recommending legislative changes to strengthen other programs. After completion of the Uruguay Round all programs will be reassessed.

We propose reauthorization of the Export Enhancement Program (EEP) without mandated program levels or programming requirements. The EEP has proven an important part of our trade policy strategy to achieve a successful Uruguay Round. We want our competitors, especially the European Community, to know that we stand ready to use this program to the maximum extent. We want them to phase out their export subsidy practices which have severely distorted world markets for many years. Those subsidies have cost American farmers billions of dollars in exports and in income.

We also propose to extend the Targeted Export Assistance program and the Food Security Wheat Reserve. The 1985 Act

established a minimum annual program level of $5 billion for GSM-102 short-term credit guarantees and a maximum program level of $1 billion annually for GSM-103 intermediate-term credit guarantees for FY 1989 and 1990. We propose that these program levels be continued.

We are committed to helping to feed needy people in low-income developing countries. Many of our foreign food aid programs, including P.L. 480 and the Food for Progress Program, must be reauthorized this year. The Department is working with the Interagency Food Aid Subcommittee to develop legislative recommendations for these programs. We are particularly interested in revisions which will improve program operations and administration. Those will be forthcoming soon.

Conservation and Environment

Our conservation proposals extend and enhance the authorities in the 1985 Act, and the activities we have undertaken with other Federal agencies. We will focus on measures that maintain the long-term productivity of our agricultural resources, and measures that will stimulate the adoption of environmentally sound production systems. This can be done in most instances without imposing new regulations that could impair the profitability of our farmers. American farmers share with the rest of the Nation a longstanding concern for the quality of our environment and the conservation of our land and water resources. Through research and technical assistance, greater production flexibility, and targeting of key

problem areas, American farmers will become even better stewards of nature.

The authorization period for the Conservation Reserve Program (CRP) should be extended through 1995 and the focus of this program should be directed particularly at problems related to water quality and wetlands. An authorization level of 40 million acres is, in our judgment, adequate to address these problems.

Most water quality issues can be resolved through voluntary adoption of known production practices that reduce environmental risks. Research, technical and financial assistance programs now underway in USDA and in many states will encourage adoption of those practices. We are proposing an expanded effort in these areas. In particular, more effort will be required to address cropping activities in the vicinity of public water supplies, cropland in areas where dangerous runoff is conveyed directly into groundwater, areas that provide protection of wildlife habitat, and areas identified for conversion from intensive cropping under state water quality planning.

To respond to the loss of wetlands, we propose including wetland restoration as part of the CRP. Up to 2.5 million acres of cropped wetlands could be restored and protected under this program through the use of easements.

We have also recommended several changes in annual commodity programs that should reduce the use of agricultural chemicals. Our flexibility proposal will enable producers to plant a mix of

program crops on permitted acres without losing base history or deficiency payments. We also propose to protect base history when conservation crops such as forage legumes and grasses are planted but not harvested. Intensive cropping patterns should thereby be reduced, with a substantial gain in environmental benefits.

We also wish to foster improved maintenance of land idled under annual crop programs. Accordingly, we propose strengthened rules for planted cover crops, and we propose to cost share for the establishment of perennial vegetative cover on a portion of land idled under acreage reduction programs. This will reduce erosion and weed problems and improve water quality and wildlife habitat.

Increased tree planting is another objective of our CRP proposals. We propose that shelterbelts and windbreaks be established under less restrictive CRP rules. This will complement the Presidential initiative, "America the Beautiful," which will result in planting and maintaining 1 billion trees per year in urban and rural areas. This program will enhance stewardship of our Nation's natural resources, improve wildlife and fish habitats, and have atmospheric benefits such as offsetting increased emissions of carbon dioxide.

Farm Credit

The time has come to reform our farm credit programs by emphasizing that they should be consistent with a commercial, market-oriented industry. In other words, they should fill a

carefully defined credit niche; they should not be disguised welfare programs. Our Farmers Home Administration should provide targeted assistance to beginning farmers with demonstrated management capabilities. Greater emphasis should be placed on improved loan application and reporting procedures, and on financial disciplines that are required of commercial borrowers.

Farmers Home Administration (FmHA) credit programs will continue the shift toward the use of loan guarantees initiated in the 1985 Act. Under our proposal existing FmHA borrowers and beginning farmers who receive direct operating loans would face tighter loan eligibility and application requirements, limits on the period of eligibility for FmHA loans, requirements for demonstrated farming abilities, and a needs test for limited resource loans. Many of these changes would also apply to guaranteed operating loans in order to facilitate the eventful transition of FmHA borrowers to commercial sources of credit. The proposals would also strengthen FmHA's authority to subsidize guaranteed loans so as to make these loans more affordable and to encourage direct borrowers to shift to this source of funding.

The farm ownership loan program will be targeted to disadvantaged applicants, beginning farmers, and expanding family farms. More stringent requirements for loan eligibility and application procedures, borrowers' equity, and farming experience are added.

Finally, we are proposing that FmHA guaranteed loans be made eligible for the Farmer Mac secondary market that is being

established. This should facilitate an efficient FmHA guaranteed lending program offering the lowest possible interest rate to the farmer.

Disaster Protection

Multi-peril Federal crop insurance has not achieved the objectives intended when it was expanded in 1980. Consequently, in the President's FY 1991 budget we have proposed eliminating the program. Participation has remained under 45 percent of eligible acres and, until this past year, was under 25 percent, even though premiums and delivery costs are heavily subsidized. In addition, the program has not provided a viable replacement for ad hoc disaster legislation, which has cost an average of $600 million annually since 1981.

In an ideal world, Federal disaster protection for farmers would be of reasonable cost; provide producers with catastrophic protection in the event of a widespread disaster; not crowd out insurance services provided by the private sector; and provide farmers with a risk management tool that is equitable and does not reward inefficiency. These objectives have proven difficult, if not impossible, to achieve.

We, therefore, propose a standing disaster protection program to replace multi-peril crop insurance. This would provide the catastrophic protection farmers need and, hopefully, avoid costly and inequitable ad hoc legislation. Disaster payments would be available to producers in counties where crop yields fall below 65 percent of normal. Once a county is

declared eligible, individual farmers would receive assistance on the difference between the producer's harvested yield and 60 percent of the normal harvested yield for the county. The payment rate on eligible losses would be 65 percent of a 3-year average market price. Producers of 200 crops currently covered by Federal Crop Insurance, plus hay and forage, would be eligible. These crops account for over 93 percent of total U.S. cropland.

Private insurers may develop companion policies that provide protection not covered by this disaster assistance program. By providing protection on catastrophic losses, private insurers are better able to cover types of agricultural risks that are effectively insurable. Further, hail and fire insurance would continue to be available. Moreover, the disaster assistance program would provide protection to those producers who have not participated in the crop insurance program in the past because they felt it failed to address their risk management needs.

We must recognize that risk is a fundamental characteristic of agriculture. Farmers who protect themselves against risk will benefit therefrom when conditions are adverse. If the government attempts to compensate producers every time a loss is incurred, farmers' incentives to self-protect against loss from price and yield risks are reduced and the adverse effects of normal price and yield variation are magnified.

Marketing and Inspection Services

In the area of marketing and inspection of agricultural products, we have several priorities. The number one goal is to ensure a safe and wholesome food supply. Just last fall, we established new procedures within USDA to respond promptly to food safety problems and our FY 1991 budget includes a special food safety initiative. We have also established a close working relationship with the Environmental Protection Agency and the Food and Drug Administration in order to resolve issues such as pesticide tolerance. In addition, a comprehensive food safety proposal has already been announced by the President.

We recommend amending the Agricultural Marketing Agreement Act of 1937 to authorize civil fines and penalties against handlers for non-payment of assessments. Nearly 50 percent of marketing order violation cases involve failure to pay assessments.

Many of the activities carried out by the Animal and Plant Health Inspection Service (APHIS) represent services rendered to a particular individual or group importing plants or animals from foreign countries. In these cases, we need user fee legislation so that the user or person requiring the APHIS service bears the financial burden.

We also propose legislation to require that all our corn exports be officially tested for aflatoxin. This will help correct our tattered quality image in world markets.

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Food and Consumer Services

We support reauthorization of our food assistance programs, which have become so important to the nutritional well-being of low-income Americans. Benefits of the Food Stamp Program will be fully funded and support for the Temporary Emergency Food Assistance Program (TEFAP) will be continued. This represents a substantial commitment of the Department's limited financial resources.

TEFAP should be reauthorized so that both surplus and purchased commodities may be donated. This program fills an important need for many low-income Americans who have difficulty using, or choose not to use, other food assistance programs. Funding of $120 million for purchased commodities and $50 million for administrative funding would be provided.

The Food Stamp Program is the cornerstone of our national effort to provide nutritional assistance to low-income Americans. Proposed Food Stamp legislation would strengthen program accountability because the needy are best served by strong programs administered with integrity. We support proposals that will increase family income, thereby decreasing the need for food assistance. We believe that Food Stamp beneficiaries should take the maximum advantage of child support services.

We support a major effort to improve food program administration by increasing coordination among programs that serve low-income Americans. We are working through the White

House Low-Income Opportunity Board and with other Federal agencies to achieve this.

Our proposals for food stamps also set aside special demonstration grants to reach out to homeless people. Most are eligible, yet few participate. We believe that innovative activities will increase their participation, improve their nutritional status, and help give them a better quality of life.

Science and Education

In the area of science and education, our proposals identify priority research and extension programs and provide additional funding authority to conduct a National Initiative for Research on Agriculture, Food and Environment.

A provision of the National Initiative would strengthen the ability of institutions with less well developed research capabilities to conduct advanced research and train the talent which will be required in the future in our agricultural sciences.

Scientists recognize the potential to solve agricultural problems ranging from animal diseases to environmental issues through the application of advanced biotechnology. In this regard, our provisions recognize the importance of genome mapping programs for crop plants and livestock species on a national scale and provide for USDA leadership in this area. Our proposal also recognizes that the development of non-food, non-feed uses of agricultural commodities is seen as a way to open new markets for U.S. agriculture and thereby strengthen demand.

With respect to environmental and health issues, our proposals recognize an important role for the USDA in research and extension education on food safety, rural water quality, global change and for environment and natural resources education. Sustainable agriculture practices are recognized as a means to address environmental concerns, and we propose to more effectively integrate such research into the land-grant system.

In view of political changes taking place around the world, and of the need to compete in world markets, we are also proposing to expand our international research and education programs and our international development activities through scientific cooperation and exchange programs.

Conclusion

Mr. Chairman, the 1990 farm bill proposals I have outlined today build on the market orientated international competitiveness initiatives of the Food Security Act of 1985.

While enhanced competitiveness is the major focus of our proposals, they were developed within the context of concern for the environment, food safety, nutritional needs of the poor, and first and foremost, the economic well-being of American farmers--family farmers.

We are committed to helping farmers identify and respond to new practices that allow them to reduce costs, increase profitability, support a safe environment, and produce a reliable supply of safe and affordable food. We do not perceive these

objectives to be incompatible if we deal with them in a sensible, objective, systematic manner.

In closing, Mr. Chairman, we stand ready to work with the Committee and the Congress to develop new legislation that will help U.S. agriculture and the American people meet the challenges and opportunities of the 1990s.

The CHAIRMAN. Thank you very much, Mr. Secretary.

I think, as I stated earlier, there are a number of areas where I know we can work together. My concern, and it's one that has been expressed to me by a number of Senators from both sides of the aisle, is we still need a detailed farm bill from the administration. In the past, we have had legislation for that, and the bill that we have had up here from the administration has given Congress a pretty clear idea of where to go. I mention this having gone through a number of the farm bills over the years. It has been helpful to have the point by point draft we started marking up of the administration's farm bill, along with proposals made by individual Senators or the other body, and then we have these side by side spread sheets and know what we are doing.

There is another reason for having a detailed bill from the administration. A draft bill gives a very clear indication of the level of funds the President is willing to allocate for agriculture. Now, I have looked hard at yours to determine what level of income support the administration is providing to farmers, and I see the words "target prices" mentioned a couple of times. We don't see the specifics of where those target prices should be set. I mention this, because Senator Pryor, just a second ago—he's got to go home and talk to his rice producers, and what is he going to tell them, what target price? Maybe that's taken down, too. What will be the administration's target price for rice?

Secretary YEUTTER. Well, I just indicated, Mr. Chairman, that the overall number for price/income supports is the one that was submitted by the administration last week, $10.2 billion, and we are prepared to sit down and discuss rice target price, wheat target prices, any other target prices, with you and combinations of target prices, payment bases and payment limits, just so long as we stay within the $10.2 billion overall total. Obviously, there have been some suggestions that we freeze target prices. We can freeze target prices if that be the committee's will, for fiscal year 1991, but clearly if we do that we are going to have to change some of the other variables in order to be able to meet the budget target.

The CHAIRMAN. But we need to have some kind of recommendation from the administration. Is it the administration's recommendation to freeze target prices?

Secretary YEUTTER. We are trying to give the committee some flexibility in this regard to deal with a variable.

The CHAIRMAN. Trust me, Mr. Secretary, the committee feels free to take flexibility. There has never been a time that we haven't. But I want to know what the administration wants. After all, you have 18 civilian people down there—that's a parliamentary term——

[Laughter.]

The CHAIRMAN [continuing]. It's one thing to say we really want this all to work, but I would rather know exactly what is the recommendation; what does the administration support and stand for? It is a freeze on target prices? And if it is, then we have to deal within that context. If the determination is to let those have a downward slide, and that's what the administration wants, we should know that. See, we have two things here; not only trying to figure out where we are going to go, but we also have to have some

idea from the administration what they support so we know whether if we get legislation passed, after all the work that goes into it, whether it is going to be signed into law by the President. So I repeat the question: Is it the administration's position to freeze target prices?

Secretary YEUTTER. The administration will not today declare what its position on target prices is. The administration's position today, Mr. Chairman, as I've said repeatedly now, is that we must reach the $10.2 billion fiscal year 1991 target for farm price and income support. We had a similar situation on the disaster bill last year, as you know, where we had a target there of $900 million and we negotiated with this committee in such a way as to design a disaster program that would meet that $900 million target. I would like to sit down and negotiate with this committee a price and income support program that will meet the $10.2 billion target. We can start that today and go for the next 24 hours or 24 days if you would like to do so, but I suspect that this is not something that we should try to negotiate out today.

The CHAIRMAN. Well, except that we are going to reach the point that we are going to have to do it fairly soon, because one of the reasons for asking these questions now is so we have some idea where we are going. We did not have, considering the amount of other items on the agenda for this year, we don't have a great deal of time for the farm bill. I have already asked the subcommittee chairmen and ranking members to complete all their hearings in very short order so that we can begin markup. Even the number of markup days will be less than normal. We will start early in the morning. My hope is to avoid too many weekend sessions of markups, and so we still need to know, and as quickly as possible, because it's not just fiscal year 1991; we have to figure out where the administration thinks we should be in fiscal year 1995, and how much money the administration is supporting in those out years.

Secretary YEUTTER. Well, I assume, Mr. Chairman, your plan will be to take up these issues in some systematic way and I am not sure what your modus operandi is. We will fit to whatever that is in terms of providing the staffing support, and likewise, you mentioned the question of the matter of having our proposed language. That will be ready whenever anyone wishes to take it up.

The arrangement we have worked out on the House side——

The CHAIRMAN. Incidentally, would that language include target prices?

Secretary YEUTTER. It will put a blank on target prices, subject to agreement through negotiation. I am prepared to negotiate on target prices, Mr. Chairman, whenever you want to start. I'll start tonight if you want to. But I'm not ready to do that here today. I think we might want to have some discussion of tradeoffs here at some point in time in a less public setting.

The CHAIRMAN. Well, if you would like to start that, I am going to have to do that, too, but I would like to get what at least the deciding figure is out of the administration.

Secretary YEUTTER. $10.2 billion. [Laughter.]

The CHAIRMAN. How about in fiscal year 1990?

Secretary YEUTTER. Well, we'll deal with that at a later time. I'm not prepared to give you that number at the moment. But I'm certainly prepared to discuss it with you.

The CHAIRMAN. You understand it's going to happen sometime, certainly by the spring at the absolute latest, because we are dealing with a 5-year farm bill.

Secretary YEUTTER. That's correct.

The CHAIRMAN. In other words, we can't write a 5-year farm bill if we don't know what the administration really wants on target prices. I don't mean to keep pounding this, but it is easy to say, here's x number of dollars; go to it. And then for the administration to sit back and no matter what we put in target prices, say, hmm, not what we had in mind. I want some specifics and sometimes the specifics, of course, are the difficult things. I am reminded of a year ago with wonderful speeches, which we all applauded, for example, on foreign aid to Eastern Europe, but when the bill actually came up here from the administration, there's $10 million. That's it. It cost about $5 million for the President and the administration to go over there to make the promises. I would suggest that it would have been better to have sent the promise, even by UPS, and give them $15 million. But, anyway, we finally worked it out.

Let me talk about another area, flexibility, and there's been a lot of discussion; you've mentioned it several times in your response back; you mentioned the flexibility bill that Senator Lugar and I have, and we are all in favor of flexibility here, and if you want flexibility, there are 19 different versions of flexibility we would probably get from around this table. I feel that when we talk about flexibility, it can't be a catch word to farm income, or government supported agriculture.

Under your proposal, I'm interested about how we would manage supply. Some markets are strong today. We know the dollar can strengthen, whether it can improve, other items can cut in, and so on, if farmer's payments are not tied in some way to current production, is there any way of keeping control of overproduction?

Secretary YEUTTER. Well, they are tied to current production in a sense. The amount of the deficiency payment will still be calculated on the basis of price levels that exist in the marketplace. So those market signals will come through in this kind of flexibility framework just as they will in the proposal that you and Senator Lugar made. I think both of them are very similar in that regard. And then obviously we will still have individual crop ARP's, the acreage reduction program. So we can if we wish adjust production levels on a year to year basis through the use of the acreage reduction program.

The CHAIRMAN. Is it reflected in what they are producing now?

Secretary YEUTTER. Well, it will be reflective of market conditions; in other words, we would assess market conditions each year, as we do now, and raise or lower ARP's depending on stocks-to-use ratios, accordingly. So you do have a management factor in the ARP's program that is built in, if we can call it that, a government management factor in ARP's. Then individual farmers will do their own management, make their own management decisions based upon the flexibility given them under the bill and as determined by

market conditions. So they will shift between corn and wheat or wheat and soybeans, based upon market conditions and based upon what we do with the ARP's.

The CHAIRMAN. Really, Senator Daschle raised it earlier, in a comment, and I am just wondering, is this flexibility just basically decoupling?

Secretary YEUTTER. It really isn't. There are a lot of dimensions here that are completely different from the decoupling concept, and the flexibility provisions we have here are very much like the NCA that existed in the 1970's. I don't think anybody called it decoupling then. It is very similar to the one that you and Senator Lugar introduced. I don't think anybody is chastising that for being decoupling.

The CHAIRMAN. Except that we are there; we have kept that open enough so that it is clear that we are not trying in any way to cut farm income.

Secretary YEUTTER. We are not cutting farm income either.

The CHAIRMAN. And that flexibility. But my concern in this, and maybe when we go on to the specifics on this particular one, Mr. Secretary, we want to look at—I don't want us to be here legislating something that to a large extent is still on the table in Geneva, and legislate a way, a bargaining position without getting anything in response from other countries. I've stated, as you know, a number of times, we'll write the farm bill here; we won't write it over in Geneva. By the same token, I don't want to bargain away any one of our strong hands here and then have other countries, many of which have historically been unwilling to give very much, gain here.

Are you going to make it Rudy? Shall we get the Capitol physician over here? [Laughter.]

Or is it part of explaining this farm bill back home this year?

Senator BOSCHWITZ. I don't know.

The CHAIRMAN. Sorry for your distress.

Senator BOSCHWITZ. I wish the Secretary wouldn't cast aspersions on decoupling. [Laughter.]

The CHAIRMAN. I had thought the Secretary and I were getting closer together on these things.

Senator BOSCHWITZ. It's very interesting to watch the dance that is occurring, you know, how much are you going to cut, and so forth.

The CHAIRMAN. Well, I just wanted to set the stage. I think we have a lot more specifics to go, but anyway, I've gone over my time, and I do have a number of other questions we will get back to; but——

Secretary YEUTTER. If I may give a 30-second response to all that.

The CHAIRMAN. Sure.

Secretary YEUTTER. There is nothing in the flexibility that would reduce farm income. You know, farmers will make their own judgments as to production levels, but I don't see this as in any way having an adverse impact on farm income. It is intended to raise farm income by enhancing efficiencies in production.

The CHAIRMAN. Do you have an analysis of that in-house?

Secretary YEUTTER. I'm not sure that we have a detailed analysis at this point, because I've required some assumptions as to what

farmer decisions would be, but we can do a rough cut at that, if you'd like to have us do that.

The CHAIRMAN. I would appreciate it. It would help me an awful lot.

Senator Lugar.

Senator LUGAR. Well, thank you, Mr. Chairman.

Secretary Yeutter, in your testimony this morning, you drew attention to the fact that some bad judgments were made on credit in the past, and these finally come now to the present in terms of writeoffs. Was the figure in the area of $10 billion?

Secretary YEUTTER. That's correct.

Senator LUGAR. Explain, please, what implications that has to the budget for all of agriculture for this year.

Secretary YEUTTER. Well, it's a very complicated situation and I might ask Scott Steele to come up and help me on this if need be, because he understands the budget far better than I do. But let me take a first crack, then Scott can bail me out if I give you the wrong answers.

That $10 billion is simply written off as a loss, very much as a private taxpayer would write off a bad debt, if you will, on his income tax return. But there are some budget implications directly in each fiscal year. We make outlays for the loans that go to farmers, and those are done on a net basis; in other words, they reflect the estimated paybacks, the amount of loan money that goes out in Farmers Home, less the amount of payback that is expected to flow in. This becomes the net outlay in the budget, and that's the number that appears.

For example, in our fiscal year 1991 budget, the number for Farmers Home Administration is $5.8 billion for net outlay. And that means we are making more than $5.8 billion in loans, some of that then being offset by money coming back in from old loans.

If we had made sound older loans, the amount of money coming back in and the payback of interest and principal would shrink that figure. In other words, that $5.8 billion, which is a part of our fiscal year 1991 budget and subject to Gramm-Rudman discipline, would be a substantially smaller number if we had not made all of these dubious loans in the past, which are reducing the payback that is coming to us in fiscal year 1991. But that's a different question from the $10 billion which is handled in a separate way.

Scott, would you like to expand upon that?

Mr. STEELE. Well, yes.

Mr. Secretary, that's accurate in terms of describing the outlay impact. But then on the losses, we deal with those like we do in CCC. We have nonrecoverable outlays, so to speak, and we declare them as losses. We go to the Appropriations Committees every year and ask them to restore the losses. Those losses are included in the budget, and the $10.4 billion the Secretary mentioned here is the amount of losses that we are going to declare for Farmers Home in total. In other words, we are not receiving any repayment for those losses. We have written them off. And now we are going back to the Appropriations Committee and asking them to restore the losses. But that's a separate calculation from the deficit calculation.

The deficit calculations are based on cash outlays and receipts; and when you don't get a receipt for something, we declare it a loss at some point in time and we have to go back to Congress and restore the loss. That's the $10.4 billion figure.

Secretary YEUTTER. In other words, that $10.4 billion, Senator Lugar, is not a figure that has applicability in the Gramm-Rudman context, but it does come out of the taxpayers' pockets, and the other figure, the $5.8 billion, which would be smaller had we had better loan practices in the past, does have Gramm-Rudman implications.

Senator LUGAR. Would there be any money at all in terms of Gramm-Rudman outlays—you mentioned $5.8 billion—if in fact you were getting payments that were due? In other words, you are writing off $10 billion this year and as I recall, you have written off about that much for several years. In fact, about $5.8 billion that otherwise could be spent for income for farmers now is being spent because of mistakes and bad loans in the past; isn't that correct?

Secretary YEUTTER. That's exactly the bottom line. Let me ask either Scott or John Kislak if they have a view as to how much of that $5.8 billion might be covered by an inflow of funding if we had made proper loans in the past.

Mr. KISLAK. Mr. Secretary and Mr. Chairman, if we had a constant level of loanmaking authority and there were no losses from credit and there were no interest rate subsidies, the loans were made at the same level as the Treasury rate, then there would be no outlays for Gramm-Rudman calculations. We don't have any of those circumstances right now, and in recovering from the problems of the existing portfolio, a substantial part—and we can give you more exact numbers—a substantial part of the $5.8 billion is reflective of the payments that ought to have been made in the fiscal year that we are projecting not being made.

Secretary YEUTTER. In other words, Senator Lugar, we would always get less than $5.8 billion back, because there is an interest rate subsidy built into all of those Farmers Home programs. But the number would change a great deal because of all of the losses of principal. In other words, the fact is that we are getting the interest back at the rates that are prescribed for those who pay interest, but we are losing the interest for people who pay no interest, and we are losing the principal on people who pay no principal.

Senator LUGAR. All right. I won't carry this line of questions further, but what I would like for you to do, if you will, for the benefit of the committee, is to provide an analysis of what years these loans were made; what you are writing off; any what sort of flow of additional credit is coming through, so we can begin to match up this situation.

My sense is that we are going to have a debate on farm credit at some point during these markups, and my conviction is that farm credit has been very badly handled during many years of its recent history. Badly handled in terms of loans made that should not have been made; when the prospect of repayment were dim then and are not existent now and are being written off. This involves tens of billions of dollars of taxpayer money down the drain.

Now, I think that needs to be known by the American people, and we have the responsibility in this committee to oversee it and

it seems to me very important that when we get into these budget figures we understand the implication on Gramm-Rudman, that assets of the U.S. Government are literally down the drain.

Now, whether all of the $5.8 billion could have been recovered if people were paying their money, is arguable, and that we will cede. More to the point, we've been arguing today in part about the proposed budget of $10.2 billion, which is barely twice what we are in the process of writing off, in terms of old loans. That writeoff has an impact on the ultimate farm income figure.

Secretary YEUTTER. Thank you.

Senator LUGAR. I can understand in terms of—and I say this gently to my chairman, a little bit of partisan back and forth here—that, you know, why not put your neck into the target price wringer and chop it off rather than any of ours, but at the same time, we are going to have to come to that point down the road.

Now, you don't know, really, whether $10.2 billion is going to be available. Senator Heflin alludes to this rather darkly. If, in fact, we do not slice $36 billion in spending, more or less, out of the budget, and that is only one interpretation of how far we have to go, and is probably the easiest target that I have seen, then Gramm-Rudman will probably apply and this $10.2 billion will end up being something else. It might be $9.2 billion or it might shrink further through various permutation of Gramm-Rudman. So you don't know if you have $10.2 billion to work with, nor do we know that at this point. In the meanwhile, it very much depends upon the action of the Budget Committee, and the Congress as a whole.

Now, furthermore, we don't know whether, even if you did have $10.2 billion, that the money would ever be spent. The argument that somehow this is in any way related to farm income is bogus on the face of it. As a matter of fact, if market prices are above target prices, the expenditures are zero. As you know, the assumption is that somehow the target prices will be well over market prices, but if that is the case, then it seems that we are subject to some question as to why we are setting a target price arbitrarily, without any relationship whatever to any market in this country or the world, unless we are operating a charitable institution, and simply making a transfer of payments from one taxpayer to another.

Now, this committee has an advocacy role for agriculture and we will make certain agriculture does as well as any other group in our society. But at some point we also have a responsibility to the American public and to the budget. And some of us have not forgotten that. As a result, I don't know whether we will spend $10.2 billion. As a matter of fact, it might be more healthy for the country if we did not. Maybe it would be better if we spent $9.2 billion or $8.2 billion or if the Federal Government was out of the business altogether. And this year, we won't be out of the business. We will have a safety net. Every farmer knows that, needs to know that, the same as every social security recipient needs to know that.

But we ought to be heading toward competition in the world market, where we earn our way and where we are competitive, and flexibility helps that. That, alone, in all that you have suggested, offers an upside potential for farm income. A potential that farmers can make a rational decision on how to maximize income without planting for the Government and looking for the Federal

check, which may in fact be diminished in the process that we are undertaking. I thank you Mr. Secretary for your analysis and look forward to working with you.

Secretary YEUTTER. Senator Lugar, I agree with all of that, and I would embellish it only by saying that in my judgment there is no need for us to be pessimistic on the income side. Senator Conrad raised that point earlier, that farmers are interested in income, income, income, and that's correct, and properly so. But we should not relate that to Government financial support, because as Senator Conrad knows and all of you know, the amount of money flowing from the Federal Government to agriculture over the last 3 to 4 years, since 1986, has gone down rather substantially, but farm incomes have gone up very substantially during that same timeframe.

What has occurred is the curve of declining governmental financial support has gone down at a slower pace, and the income from the marketplace has been rising. And that's an ideal situation; that's really the kind of world we want to have and I commend all of you for what you did in 1985, because clearly the 1985 farm bill had a good bit to do with that very successful scenario.

We just finished the highest net farm income year of all time, even though the amount of governmental revenue is down a long way from where it was 3 or 4 years ago. So let's hope that will occur in the future. And I would second the point that someone else made earlier, that there is some irony in the fact that the agricultural sectors that seem to be doing the best day are the ones where Government is not involved at all.

The CHAIRMAN. I was going to say if this continued to improve like this, Senator Lugar and I will point out that the trend started when we took over the committee. [Laughter.]

But you understand, though—and I say to my good friend from Indiana—that naturally, I do want the Secretary to put his neck on the line, because sometime you will have to. The administration does have to say specifically what it wants, and I want to give you fair warning—just as we do. We may not agree with the Secretary. We have 19 people out there to vote on it, it could be very close. We have to put our neck on the line, too, but in the President's budget, agriculture is asked to cut commodity programs by $1½ billion. You've estimated that we will spend $4.1 billion in fiscal year 1991 on advance deficiency payments from commodity loan programs; if you take $1½ billion out of that that's a pretty large cut, and you eliminate crop insurance programs, as has been pointed out, but there is nothing in the budget for disaster assistance.

I realize some of these are OMB directed numbers, but some of them do not look realistic, or at best do not look logical, and that is why at some point, rather than just the overall broad scale, broad brush, we have all got to paint in those details.

Senator Baucus was unable to give his opening statement earlier because of the negotiations with the administration on clean air, and I will yield to him for his opening statement and then go to Senator Kerrey.

Secretary YEUTTER. Mr. Chairman, let me only say that I just want to make sure there are 20 necks there instead of just one.

The CHAIRMAN. Well, and there will be. [Laughter.]

I understand your position on that, but I think it is going to be difficult enough getting a farm bill through this year. It's going to be difficult enough getting a housing bill through; it's going to be difficult enough getting a defense bill through or a foreign aid bill or any other bill. But it can't be done on just the broad statement on the part of the administration and then put the Congress in a damn if you do and damn if you don't kind of position, a position to fit in the numbers, especially if the numbers and the budget doesn't allow for enough to carry out broad promises or broad statements. I am not suggesting that's the way we will eventually end up in the farm bill. But there are a lot of things that are coming down that way in various committees. I serve on the Subcommittee on Defense of the Committee on Appropriations where the broad outline is given, the broad promises are given, that we all agree on, every single person around here, Republicans and Democrats, agree on some of these broad outlines and broad promises, but we are still charged with finding the specifics of the money and the money is not there. And then all of our necks will be on the line, but yours first. [Laughter.]

Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. And I thank you for allowing me to speak at this time and I also thank the other members of the committee.

Mr. Secretary, I have two points. Number one, last November it came to my attention that the way the ASCS interpreted the 1989 Disaster Assistance Act was very detrimental to many of my farmers in my State of Montana. Essentially, under the Department's interpretation, if a farmer lost his Winter wheat because of the freeze that year, but then plants some barley or oats, for example, he is able to qualify for disaster assistance. But if he replants in Spring wheat, he is unable to qualify for disaster assistance.

I sent you a letter signed by nine other Senators asking the Department to change that policy because, after all, Spring wheat is a second crop just like barley or oats is a second crop. The Department has not answered that letter. That letter was sent at least 2 to 3 months ago. We have made repeated telephone calls to the Department to answer my inquiry—probably 10 telephone calls from my office. I still have had no response from the Department. I must tell you, I am quite disturbed.

I am disturbed, number one, that we received no response from the Department over 3 months, none.

Second, the Department has not changed its policy. And here it's April. Farmers need to know right away whether or not to plant and what crops to plant so they can proceed. They just need to know.

In fact, I am so disturbed with the administration that I'm not going to wait any longer for the administration to act. Instead, today I'm going to drop a bill in to make that change. We won't get it until the farm bill passes, and that's a little late for a lot of farmers. But nevertheless, I'm strongly urging you, the administration now, publicly, to get on with it, to make some decisions here. I urge you to allow Spring wheat to qualify as a second crop.

The second point is this. At town meetings in my State, I hear recurrently from Montana farmers that they are very, very con-

cerned that the administration is going to sell them out at the Uruguay round. They are very afraid that this administration—and I must say based upon statements they have heard from you—is too willing to get an agreement for the sake of an agreement; that this administration is not willing to walk away from an agreement that is bad for American agriculture.

And so I must tell you that, as the chairman of the International Trade Subcommittee, the subcommittee through which any Uruguay round agreement will proceed, I am not going to agree to an agreement that sells out American agriculture. And I therefore urge you, and I know other Senators feel the same way, to send some very strong signals to American agriculture that the administration is willing to walk away from a bad agreement on agriculture. And if you send that signal, not only to the American farmer, but also to our trading partners, you will increase your bargaining leverage and get a better agreement.

Now, I can tell you, at town meeting after town meeting, this is the concern that comes up, and I urge you to take that very strongly into consideration.

Secretary YEUTTER. The latter is an interesting observation, Senator Baucus, because some people made the same comments before we went to Montreal 18 months or so ago, at the midterm review. And I had agricultural groups and industrial groups during my tenure as U.S. Trade Representative asking if I was prepared to walk away from a midterm agreement at Montreal? And a lot of them said that they did not think that we would, but we did. We walked away on agriculture in Montreal and my judgment is that we got a better deal on the midterm review, 4 months or so later, as a consequence thereof.

I am not the U.S. Trade Representative right now, Senator Baucus, as you know, so that responsibility for conducting the Uruguay round negotiations now lies with Ambassador Hills.

But I certainly do not see any lack of will on her part, and obviously I will support her in every way I can and I would not expect her to bring back an agreement that would not be in the best interest of American agriculture.

Whether we can get such an agreement on agriculture at all remains to be seen. There is great resistance on the part of some of our trading partners, particularly the European Community, as you well know. The Community has taken unfair advantage of the United States and a lot of other agricultural exporting countries in the international market place for 30 years, now, and would prefer to continue that course of action.

And so, we have a lot of very tough negotiating ahead.

Senator BAUCUS. You are the Secretary of Agriculture. You are our public official.

Secretary YEUTTER. Most people think that I take stances in the Uruguay round that are too strong and too tough. So I am rather surprised that some folks wonder where they will go otherwise.

But I take your point, Senator Baucus and we will try to make everybody understand it. We will do that.

With respect to the wheat, there are just two comments.

I will ask John Campbell to comment on the merits of the argument, if he is prepared to do so.

I am sorry that you have not gotten a response.

Senator BAUCUS. Pardon me, Mr. Secretary, I have just gotten a note that I have to get back for the clean air negotiations. Maybe a one sentence response would be sufficient.

Are you going to change it or not?

Secretary YEUTTER. Well, John?

He said the simple answer is, no, but say why.

Mr. CAMPBELL. Well, there are three elements, just briefly. First is the law. The law says losses of other commodities, wheat is wheat. And the second thing is when you look at other commodities, consider the corn that was replanted in Ohio because of late planting. It may be a different variety but that would be the same circumstance where we would have to pay for corn that was replanted.

The third is that as we analyzed it, some of your wheat producers may be worse off under this option because they would not be eligible for deficiency payments which they are currently eligible for on the one that was lost.

So, for the farmer, it is a rather tenuous situation and——

Senator BAUCUS. Let them make that decision.

Secretary YEUTTER. I do apologize, Senator Baucus for not responding. We will take care of that, and there is no excuse for not giving you a timely response.

The CHAIRMAN. Senator Kerrey

Senator KERREY. Mr. Secretary, let me just sort of again reiterate what has already been said about not having an actual bill here. With all due respect, we would not get a clean air bill passed this year if the President had not submitted a bill and one of the things that is missing in your lengthy description—a useful description, by the way—of where you would like to see the program go, is an overall statement of what the farm bill is supposed to accomplish.

I would like to see flexibility and all of the other things that you have laid out. I have a statement here, a letter to the Washington Post in response, in fact, to someone who was very critical of our farm programs. The letter is by former Secretary of Agriculture John Block, and he says, "farming is a volatile industry in which weather plays a great role. In 1987, grain supplies stored under government loans were referred to as a surplus but with the drought of 1988, that surplus became a valuable reserve. Even the most adamant critics must admit that our farm programs played a role in assuring abundance in times of natural emergency."

Do you agree with that as an objective for the farm program?

Secretary YEUTTER. Sure.

Senator KERREY. Well, you know, it seems to me that with that in mind, one of the things that you must have done as you began your deliberations is to assess, as we do with defense, for example, what percentage of the total budget should be allocated for agriculture. How did you come up with $10.2 billion as the mark for agriculture next year?

Secretary YEUTTER. Well, that's a Presidential decision, Senator Kerrey, as you well know. That had to be done in a balancing of all interests within the entire U.S. Government. So you'll have to ask

the President of the United States how he came up with that number or ask Mr. Darman.

Senator KERREY. You are saying that the President made the decision or Mr. Darman made the decision?

Secretary YEUTTER. Well, he is responsible for the decision.

Senator KERREY. He didn't share with you the basis for the decision?

Secretary YEUTTER. Well, of course, we've spent hundreds of hours, I suppose, in the budget debates. The President of the United States has to delegate the authority for a lot of this to his Cabinet officers. He can't make all the decisions. You know that as a former Governor. So it's the responsibility of the head of OMB, Mr. Darman, to pull all this together and then make final presentations to the President for the President to make a final signoff.

Senator KERREY. Did you argue for a larger allocation?

Secretary YEUTTER. We argued for a specific budget and in all these items——

Senator KERREY. Did you argue with——

Secretary YEUTTER [continuing]. With tradeoffs between and among the various items, elements of the budget. If the question is, would we have preferred a larger number? Of course.

Senator KERREY. But did you argue for a larger allocation?

Secretary YEUTTER. Yes.

Senator KERREY. Did you have a specific number in mind as you approached Mr. Darman?

Secretary YEUTTER. You want the neck in the noose, don't you, Senator Kerrey?

Senator KERREY. No, I don't want the neck in the noose. At some point, I assume all of the Departments who approached Mr. Darman and the President had a basis for seeking a certain amount of money allocated for their Department.

Secretary YEUTTER. Right.

Senator KERREY. I assume you did as well, and I'm simply, Mr. Secretary, trying to get at the basis for the decision and the analysis that was done for whatever request you made initially.

Secretary YEUTTER. We had very long and trying discussions and debates, as did a lot of other Departments of Government in this process which took many weeks, and ultimately, of course, the President must make a decision on what the spending levels are going to be. If we had no Gramm-Rudman constraints, of course, one could make an argument for a lot more funding, but in my judgment, Gramm-Rudman is a very proper and helpful discipline in this process, and I'm committed to making Gramm-Rudman work, so is the President. When that happens, we have to make tough tradeoffs.

Senator KERREY. I agree that tough tradeoffs need to be made. I'm just genuinely concerned about the direction that we are heading right now on the farm bill.

Secretary YEUTTER. You do recognize——

Senator KERREY. My concern is based not just upon, by the way, my concern for producers, but it's based upon my concern for consumers as well; and I think former Secretary Block expressed it very, very well. We are not, as some have asserted, simply trying to satisfy the needs of farmers. We are also trying to satisfy the needs

of those who consume food and thus we try to keep the price stable and the supply as stable as possible. I've seen an awful lot of concern when that price starts to get too high.

I've seen people take quick action when the price starts to get too high. But I don't see a commensurate amount of concern if the price starts to get too low, and I am trying simply to balance those two concerns.

Secretary YEUTTER. We hope prices won't get low, Senator Kerrey. That's why our efforts to expand markets are important both domestically and internationally; in my judgment, that's more important than what we provide in the way of safety nets.

Senator KERREY. Let me provide, Mr. Secretary, a clue as to why some of us are concerned about the NCA proposal that you suggest. By the way, I am pleased that you are using the NCA concept because I happen to like it. In an answer that you provide on page 2 of the question and answer booklet that accompanied your proposal, you say that a "key flaw in the old NCA program was the link between payment and planted acreage."

Secretary YEUTTER. Yes.

Senator KERREY. That suggests that you want to break that link and those of us who have watched Senator Boschwitz' proposals or actually campaigned against them are hearing that as decoupling.

Secretary YEUTTER. Well, there is greater flexibility in the proposal that we have articulated here, Senator Kerrey, you are correct, than there was in the old original NCA concept, but it is still a far cry from decoupling.

Senator KERREY. But that's where we get the perception. When you talk about a key flaw being the link between payment and planning decisions, we hear decoupling. I just wanted to point out to you where the concern has come from.

Secretary YEUTTER. I understand that. But that was one of the reasons that the old NCA didn't work as well as people had hoped and it became modified through the years and we may have made it worse instead of better. What we are really trying to do is go back now and do a modified NCA that we hope will work a little better than the original one.

Senator KERREY. I have three or four other questions that I want to ask. I will submit them, Mr. Chairman, for the record.

I would like to follow up on the NCA, Mr. Secretary. As I indicated earlier, one of the things that I am hearing over and over and over is not just flexibility but simplicity, and I would like to be able to stand 3 or 4 years into the future and have farmers say, thanks; not only is it more flexible, but it is simpler. I am trying genuinely to listen to what they are pointing out to me. And as I look at your proposal, I hear that on each farm, we are going to establish an NCA base, we will retain crops specific bases, we will determine payment acres for each one of those crops with a base, we will allow a producer to grow a crop on idle acres or even exceed his crop specific base if he accepts a reduction in program benefits. In the meantime, we would still have target prices, basic loan rates, Findley loan rates, a separate payment limit for regular deficiency payments, and another payment limit for Findley payments and so on and so on, but I must tell you, as I read the specific language that I think you are supporting, I don't hear simplicity at all. I

hear something that is extremely complicated, and I fully admit that it may just be that I need to have it explained a bit more. But it doesn't look simple to me.

Secretary YEUTTER. Well, it's a good point, Senator Kerrey, and I hope we can persuade you that it is not as complicated as it looks, because I don't really believe it is.

Senator KERREY. You won't have to persuade me. It will require the persuasion of people out there who are going to have to live under this thing. And I intend to take it to them and say, do you think this provides you with flexibility and is it the kind of simplicity you want or do you accept, in fact, that what has been identified as a key flaw in fact is a key virtue of the old NCA program.

Secretary YEUTTER. Well, that's the kind of debate we should have.

Senator KERREY. Yes.

Secretary YEUTTER. And, you know, that's what trying to design a flexibility program is all about.

Senator KERREY. Thank you.

The CHAIRMAN. We have a vote on and we will take a recess at this time. The Secretary has been very patient and a recess will give you a chance to make some phone calls or whatever else you want to do. When Senator Conrad comes back, he will be recognized next for questions.

We stand in recess until Senator Conrad returns.

[Recess.]

Senator CONRAD [presiding]. The committee will come to order.

Mr. Secretary, some things have been said here this morning that I think need to be put into perspective, and I must say, I've heard some talk around this table this morning that disturbs me greatly.

One comment was a comment that you made that net farm income last year is the best it's ever been. And I think frankly that sends a very misleading signal to the public. That's true if you forget about inflation. If you adjust for inflation, the decade of the 1980's has seen the lowest farm income of any decade since record-keeping started in 1910. I think the public needs to understand that, if they are to put into perspective the position of American agriculture.

The second thing that I heard this morning that deeply disturbs me, in terms of sending a totally wrong signal to the American public, is the statement that we are losing $22 billion on the credit programs. That, too, I think, is very misleading. Most of this loss—and, by the way, the actual loss is far less—are actually costs. We are talking about the total cost when we use the $22 billion figure. Much of that cost cannot be attributed to losses. They are program costs that were specifically designed by Congress and the administration to provide credit on a subsidized basis to agriculture. It's been long understood agriculture can't function in the traditional credit markets.

In 1990, just to give a breakdown, the interest rate subsidy, specific subsidy—this isn't a loss; it is a program that was planned—was $2.7 billion. But when they run these charts, Newsweek magazine and the rest, they add this all up as though it's a loss. That wasn't a loss. That was an explicit interest rate subsidy the admin-

istration and the Congress agreed to. $1.8 billion were actual write-downs. And why? In the Agricultural Credit Act, we provided for write-downs if the Federal Government would recover more through write-down than through foreclosure.

Inventory management was $1.9 billion. That wasn't a loss in the way most people would think of a loss. And the losses that did occur, the write-downs that did occur flow mostly from programs, emergency loan programs, that have been stopped. Finally, we're facing up to the mess by cleaning it up. So I'm very disturbed by what I think are wild statements being made around this table that are going to do nothing but mislead people as to the reality that we confront.

The third item that disturbed me was conversation on target prices. I was amazed to hear people assert that target prices don't have much to do with farm income. Well, certainly, they have a great deal to do with farm income. What farmers get in the marketplace plus what farmers get as a result of target prices is the gross income for American agricultural producers. As I recall, the economic analysis of the Department is that prices in the marketplace are going to be going down. Is that correct? Is it the analysis of the Department that market prices are going to be going down?

Secretary YEUTTER. That's true, but that doesn't necessarily mean that farm incomes are going to be down, assuming we have improved weather conditions, and that's implicit in those studies. We have gone through some bad weather years, as you point out, and still have some bad weather in your part of the country. But assuming that crop production increases in the next few years on the basis of normal weather, then if supply and demand still works as it has for decades, we would expect lower price levels. But lower price level by no means translate into lower incomes and, in fact, we would hope they'll translate into higher incomes.

Senator CONRAD. Well, I just say to you, Mr. Secretary, if we are getting lower prices from the marketplace, that's your projection. The budget that has been sent us provides less support from the Government. This means that if nothing else is changed, farm income is going to go down.

Secretary YEUTTER. Farm income, as you know, Senator Conrad, is a combination of price and quantity it's not price alone.

Senator CONRAD. Exactly.

Secretary YEUTTER. We can have $10 wheat, but if we do not sell enough wheat, that's a pretty low income.

Senator CONRAD. Yes, absolutely. But understand what I just said. What I just said is, if you hold production the same, market prices are going down, and Government support is going down, farm income is going down. The FAPRI analysis said——

Secretary YEUTTER. Sir, but I would not accept that preface, because your assumption was that production would remain the same. My assumption is that production will increase, and hopefully, demand domestically and internationally will increase.

Senator CONRAD. Well, I'll tell you, if we look at the FAPRI analysis, we see that they have concluded that if target prices are frozen, farmers are going to have a 40 percent reduction in net farm income by 1995.

Secretary YEUTTER. We do not agree with that at all.

Senator CONRAD. I understand that. And I would like you to provide us with your analysis so that we would have a basis for judging these things. That would be very useful.

Secretary YEUTTER. Sure.

[A response was subsequently provided and follows:]

Throughout modern history real farm prices have trended almost steadily downward due to increased production stemming from increased productivity. Real net farm income has been sporadic but has averaged slightly lower in the 1980's than during other decades in the 1900's. However, real farm income per farm has been record high over the past two decades. Thus, as farms become more efficient their incomes improve, even if prices decline.

Senator CONRAD. And implicit in that, frankly, I have to say to you that you are going to have to come up with some target price numbers. It seems to me incumbent upon an administration to explain what your proposal means for target prices. I understand that's an uncomfortable position to be in, but when you are the party in power, elected by the American people to be the administration, there is an obligation to propose a budget that contains specific detail so that the public can understand what the proposal is.

Let me just make a couple of other quick comments. I sense in listening to this conversation—it's almost as if we've forgotten why there is a farm program. There's a farm program because, as John Block describes agriculture, it is very unstable. There is also a farm program because we are not living in a perfect world. Our European friends are providing a level of support that is triple what market prices provide—triple. In commodity after commodity, I don't think you would disagree, they are providing triple, and frankly, they do it in a different way. About 80 percent of their subsidy comes from consumers. Most of ours comes from the Government. So we have very different systems. Frankly, when the President comes forward and says, we are going to cut the part that comes from the Federal Government, that, to me, sends precisely the wrong signal during the GATT round. That, to me, sends a signal to Europe that we are engaged in unilateral disarmament; we are not ready to fight for these markets in the same way that they are; and unless we are willing to ask our consumers to pay more, farm income is going to go down.

So I wanted to make these comments. I've found some things that I heard here this morning very disturbing. A final note. Agriculture is also very much affected by larger economic policy. The economic policy that we have had in this country over the last 10 years has been a policy of very large Federal budget deficits, which puts pressure on interest rates. As a consequence, we've had the highest real interest rates in the recorded history during this government. The result is putting pressure on the American dollar, upward pressure, which puts downward pressure on commodity prices. That's not the fault of the farmer. The farmer is left out there a victim. And unless the Federal Government does something to offset what they are doing via fiscal and monetary policy, the farmer is suffering slow motion economic suicide. We won't seem to have any conversation about larger economic policy. Frankly, I believe the most helpful farm bill that we could have would be a larger economic policy that was more friendly to commodity values,

but with all of that said, I am really concerned where we are going in this debate on farm policy.

Secretary YEUTTER. May I comment on some of those comments, Senator Conrad?

Senator CONRAD. Yes, absolutely.

Secretary YEUTTER. OK.

First of all, with respect to your latter point, there is no question that macroeconomic policies have a great deal to do with farm income and the income of all of American society. I've often pointed out in speeches over the last several years that this was the case and that the macro policies here and abroad have infinitely have more to do with farm income than does any farm bill, and I still believe that.

Probably the best thing we can do in macro policy is what Gramm-Rudman calls for, and that is discipline in the magnitude of the Federal budget deficit and bring those interest rates, both nominal and real interest rates, down. Farmers are big borrowers, as you know, and that is a substantial input cost, and that is why Gramm-Rudman is so important and why we've really got to try to make Gramm-Rudman work.

I had our Economic Section, Senator Conrad, give me a rough estimate of what it would cost American agriculture to have interest rates go back up again, and the estimate was something like $700 million for every percentage point increase in interest rates. If we go up 2 or 3 percentage points, that can take an awful lot out of farm income in a very short period of time. So fiscal policy and its impact on interest rates is exceedingly important to American agriculture.

With respect to net farm income, I haven't compared decades as you did, Senator Conrad, but certainly we had very low farm incomes in the early to mid-1980's and that was a tough period of time. But thanks to the 1985 farm bill and some other action that have been taken on the macro front in recent years, that situation has improved tremendously. I don't take any credit for that. You all can take some credit for it in the 1985 farm bill, but whatever, the fact is that the farm income picture is much, much improved in the aggregate over where it was a few years ago, and we have now had 3 good years in a row, and the best year ever.

Our challenge now is to try to sustain that momentum and that's why we believe that the 1985 farm bill should be the basis on which we legislate in 1990 and that's why we've done our recommendations in the form of modifications or amendments to that bill. One reason for not having a bill, if we can call it that, is that we think that the 1985 farm bill is the bill, and what all of us should be doing in both Ag Committees is working on modifications to improve it still more.

As to the credit programs, I am not sure where the $22 billion figure came from that you cited, Senator Conrad, but the $10 billion figure——

Senator CONRAD. Well, Newsweek magazine is one culprit.

Secretary YEUTTER. OK.

Senator CONRAD. And it just gets recycled. Every meeting I come to, people are talking about the $22 billion. We heard the number

here again this morning, and it's absolutely wrong, absolutely wrong.

Senator BOSCHWITZ. What is that number, Senator?

Senator CONRAD. $22 billion.

Senator BOSCHWITZ. Of what, of——

Senator CONRAD. That's what they claim the losses are in FmHA.

Senator BOSCHWITZ. OK.

Senator CONRAD. It's just flatly incorrect.

Secretary YEUTTER. Apparently, Scott Steele says that that figure is actually outstanding debt. In farm operating loans, that has nothing to do with losses. The figure I was citing this morning, the $10 billion that we will write off in fiscal 1991, is actual losses, or does represent actual losses. But I think the important thing from a policy standpoint, Senator Conrad, is that we have really got to make some changes in that program to tighten it up so that we don't experience these kinds of losses in the future. These are relatively high risk loans; they are intended to be relatively high risk loans because their objective is to help people get started in farming and to take care of people who need a lender of last resort, but we simply can't afford to experience billions of dollars in losses every year and regrettably some of the lending practices of some years back were dubious at best.

Some of this we can correct administratively, but if a lot of it has to be corrected, some of it also has to be corrected legislatively.

Senator CONRAD. Well, I have taken enough time, Mr. Chairman.

I do want to leave the understanding that the credit programs that really hemorrhaged were ended by Congress back in the eighties. I cannot take any credit for that. That happened before I was ever here. But I think the American people should know. The programs that really hemorrhaged were killed long ago, and the losses are coming home roost to roost now, because prior administrations and Congress' failed to deal with it then. We have dealt with it in large measure.

That does not mean that more does not need to be done. But the programs that really hemorrhaged were killed long ago.

The CHAIRMAN [presiding]. Senator Daschle.

Senator DASCHLE. Thank you, Mr. Chairman.

Mr. Secretary, your comments with regard to the 1985 farm bill really go to the heart of my concern.

You applauded the committee for its foresight in coming up with a bill that you feel has worked quite well. But does it really work well? That bill costs taxpayers about $75 billion. Averaged out over 5 years, that is $15 billion for commodity programs alone.

Now, we are being presented with a budget that says even though we have seen some inflation over the last 5 years, we think farmers can do it on $10 billion. And so you cannot blame the committee, or anybody else, when they ask—"Where does the $5 billion come from?" Are there policies in place that will allow us to rely upon the market rather than the Government?

Yet, we hear the Secretary of Agriculture say market prices are going to go down. That really begs the question.

Secretary YEUTTER. But incomes may go up.

Senator DASCHLE. Well, let me finish the thought, and then I would like to have you respond.

Your comment was that income is not only a function of price. It is a function of volume as well. You are a good businessman, and there are many business people who when told not to worry about their unit price, just worry about your volume, will shake their heads in dismay.

Obviously, in the short term, volume can be a factor but, in the longer term, you've got to have a price. Are you making a profit on the first bushel? Because if you cannot make a profit on the first bushel, there is very little likelihood that you are going to make it on the thousandth bushel.

And so the real question then is what do we do about income if we are not going to derive it from a farm bill, which is market-oriented only in that we can offset low market prices with an insurance policy from the Government that we are now told is only going to be two-thirds of what it was over the average of the 1985 farm bill?

Secretary YEUTTER. My judgment, Senator Daschle, is that we are going to have to operate domestic farm policy with a more limited safety net over the next 5 years than we have had over the last 5. I do not believe that the Budget Committees of the Congress are going to find $26 billion as they did in fiscal 1986 during the ensuing 5 years.

You may have a better feel for that than I do, but you know from being here in the Senate that the Budget Committees of Congress are dealing with the Gramm-Rudman limitations. Gramm-Rudman calls for the budget deficit to go from $100 billion this year down to zero in fiscal 1992.

We are going to have to be a part of that picture.

Senator DASCHLE. I agree wholeheartedly. I have supported Gramm-Rudman. I would support it again as it exists.

But Gramm-Rudman just simply says that we have to reach a $64 billion target this year. It does not say we have the ability to find $34 billion in excess shirts and belts and buckles and everything else from the Pentagon one day when we open up a room somewhere. It does not say we have to spend $125 billion sending troops over to Europe when there is no war there any more. It does not say we have to direct the priorities in the sense that we are.

And so the real question is, do we take a third of what we found in excess belts and buckles and shirts in the Pentagon and spend it on farm programs, or do we take a half, or maybe even two-thirds if we see that our national security depends upon it, and we can provide some kind of economic equilibrium here?

That is really it. It is not Gramm-Rudman because Gramm-Rudman simply sets a target. How we divide up the pie once that target is set is another matter.

Secretary YEUTTER. Sure. Well, it is a question of priorities and the question is where do farm price income supports compare on the priority scale with everything else that the Government does. That is an argument that I made at OMB. Obviously the result of that argument is the President's budget has $10.2 billion in price and income supports for fiscal 1991.

You all may wish to make the argument with your Budget Committees that it ought to be more than that, and that is clearly your

privilege to do so. And maybe the Budget Committees of the Congress will give these programs a higher priority.

Senator DASCHLE. We both are going to have to live with whatever comes out of that process.

Secretary YEUTTER. Absolutely.

Senator DASCHLE. Let me get to a couple of specifics with regard to the budget.

The first question that Jim Sasser would ask Tom Daschle is what has $10.2 billion bought? And what are we getting? Before we can make any judgment as to whether it is enough, there is obviously a question as to what does it do?

What does $10.2 billion do? Could you give us—even though you could not give us a specific target price and loan rate—what are the options that we are allowed to contemplate as we consider whether $10.2 billion is enough?

Secretary YEUTTER. Well, about the only way to answer that, Senator Daschle, is that $10.2 billion will do more than $8.2 billion will do this year. We are going to have $2 billion more to use in fiscal 1991 than in fiscal 1990. So that is a positive dimension era.

Now, how we distribute that $10.2 billion between and among various commodity groups and programs is something that we will have to work out. You know, I will express some views on that point as soon as we get into the depths of that discussion, but I am not prepared to do that today.

Clearly, that means we have to decide what goes into feed grains, what goes into wheat, what goes into rice, what goes into cotton. Do we put it in higher target prices or frozen target prices, or slightly declining target prices? And, depending upon what we do in target prices, what do we do to the payment basis, or do we put tighter payment limits instead of $50,000? Do we put payment limits at $25,000 or something?

We have all of those variables to deal with. And I would like to do it the way we dealt with the disaster era picture last fall where we sat down and really together evaluated the tradeoffs and finally came to a solution as to what we thought would be best.

Senator DASCHLE. Well, I will not ask you to specify the assumptions this morning. But I think it would be very helpful to us at the earliest possible time if you could just share with us what the assumptions were. What will be the carryover, what will be your estimated levels of production, and what is the set-aside?

Obviously, once we look at your assumptions, we can come to some conclusions whether or not there is an agreement with regard to that 10.2 figure, but not really until then. And so I think that is the first question.

Let me just, in the time that I have, go back to the concern that I expressed in my opening remarks with regard to your flexibility proposal. And Senator Kerrey raised this, and I had to go vote and I was not able to hear your reply in its entirety, but maybe you can elaborate a little bit more.

You have stressed on several occasions now that your flexibility proposal is not decoupling, but maybe you could just explain briefly—how do you explain your statement that the key flaw that existed in the past was the link between payments and planted acreage which was encouraged for farmers to plant under the old NCA?

How, if that was the key flaw, how would you define your flexibility plan in the sense that you delink the two now, and that is not decoupling?

Secretary YEUTTER. Well, we delink it, as I indicated earlier this morning, more than was the case in the past, but not totally.

As you know, our normal crop acreage, as it is described here, would be the existing acreage that the farmer has under the present law for all the present program crops, wheat and feed grains and rice and cotton. We then add, in order to deal with the soybean problem, add the oilseeds to that and calculate that "base"—it is not really a base, but it is the equivalent of a base—on historical production patterns over the last few years. In other words, we add to the base what your folks up in the Dakotas might have planted to sunflowers, and folks further south would with soybeans.

And we, in essence, create an additional base and add it in to the others. So we then have a normal crop acreage that involves all the existing program crops plus the oilseeds. And within that group then the farmer will, under our program, be able to plant essentially anything he wants. He can plant all corn if he wants, all wheat, all soybeans, whatever, with full flexibility and still collect deficiency payments to which he is entitled. So he does not have to produce a particular crop in order to be eligible for the deficiency payments. He has a great deal of flexibility there which we think is highly desirable.

But he is not able to plant other crops on those acres except as very clearly specified. In other words, he cannot move in nonprogram crops into that acreage, which would be of concern to——

Senator DASCHLE. Wait. Let me just ask you because I am not sure I follow you.

Are you linking payments with production and yields in your proposal?

Secretary YEUTTER. Only in the sense that the payments will still be determined on the basis of the market prices of those products. In other words, the deficiency payment system will still be there, and it will still be based upon calculations of market prices as it is today.

But the farmer will receive those payments irrespective of what he grows on his normal crop acreage. So there is some delinkage there, if you can call it that, but it is by no means total delinkage. And the amount of production and market prices will clearly be determined by the production decisions that these farmers make on their NCA acreage, which we believe is as it should be. I think farmers are going to want to do that.

If they want it more rigid, Senator Daschle, you know you all can make it more rigid. They tell me they want it more flexible.

Senator DASCHLE. They want it more flexible, but I tell you what. Out of every 100 farmers, there may be one who wants decoupling. And this is as close to decoupling as Senator Boschwitz could propose. And I admire you for presenting it in another form.

But decoupling is decoupling is decoupling, and this is decoupling.

Secretary YEUTTER. No, I do not agree with that. And I do not believe it will be perceived as a welfare check from the Government. If it is, junk it. Let us keep the present program.

I happen to think present programs work disadvantageously to farmers. They will all come back 6 months later and complain to you for not putting flexibility in the program. And you will say, well, I did not, because you said it was decoupling. And you ought to now explain that there is a difference.

All farmers are for flexibility. They all seem to be against decoupling. And they do not really understand either concept. It seems to me that what we are trying to do is design a program that will really fit their needs. And we ought to design a program, Senator Daschle, that will enhance our efficiencies, enhance their production efficiencies, and help us in the international market place.

I farmed a lot of years. And I can guarantee you that one of the things that I objected to most in my farming years was all the rigidities that were built in by the doggone farm programs because they made me produce crops that I really would not have produced had I a choice. I did not produce as efficiently as I could have because of the design of the farm programs.

That is exactly what is happening to us today. The rigidities that we have in our programs today are keeping farmers in South Dakota and a lot of other places from producing as efficiently as they should be.

I think we can correct that. And I think that we can correct that in a way that will be beneficial to farmers. But if they are just going to throw up their hands and say this is decoupling, we are against it, without looking at the merits of the proposal, then, you know, neither one of us can do much for that kind of thinking.

Senator DASCHLE. We certainly want to look at the merits, and that is the purpose of my questions, to better understand your proposal and try as much as we can to strip away the rhetoric and just really get down to what does the concept propose?

Secretary YEUTTER. Precisely.

Senator DASCHLE. If it does not link production and the price with the payment, then obviously there is some concern for decoupling. And that is how I see it.

To say that we understand these concepts and that farmers do not is not an answer. I think they understand these concepts all too well. And they would agree that they want more flexibility but they do not want a welfare check. There has to be a connection between production and support. And if you can ensure us that there is that connection, we are going to take a close look at it.

If we cannot be assured of that, I guarantee you there is not going to be a whole lot of support for decoupling in this bill.

Secretary YEUTTER. Well, I appreciate that, Senator Daschle. That is a good summary, and I know you are trying to do the right thing on this. So, what I am saying to you is in no means critical because I know you are dedicated and conscientious about trying to help your farmers and all farmers.

I do not see this kind of program as being at all comparable to a welfare program. I think the kind of flexibility program, as outlined here, and some of the others that have already surfaced, really should not be abandoned on that basis unless people feel

that the present program constitutes a welfare program. Because what they will get in the mail under our flexibility proposal is almost identical to what they will get in the mail under present law.

Now, if they feel present law is a welfare program and they want it changed, well then, fine. We can always change present law. But if they are satisfied with the way the present program is working, or reasonably satisfied, then I see no reason why these changes should alter a farmer's view from that standpoint.

Senator DASCHLE. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Boschwitz please.

Senator BOSCHWITZ. If I may, I will yield to my colleague, Senator McConnell, who has to make a speaking engagement.

Senator MCCONNELL. So you are not going to take time today. Well, thank you, Senator Boschwitz.

The CHAIRMAN. Senator McConnell, you can have yours and Senator Boschwitz' time. Was that what you had in mind, Rudy?

Senator BOSCHWITZ. I have already missed my speech. It was not a very good one anyway. [Laughter.]

Senator MCCONNELL. But I would like to make some comments.

T..e CHAIRMAN. Senator McConnell, go ahead.

Senator MCCONNELL. Thank you, Mr. Chairman.

The deal Senator Boschwitz and I made, I thank you for graciously giving me a couple of minutes. I will be very brief and essentially have one question.

I gather, Mr. Secretary—a couple of observations and a question—I gather, Mr. Secretary, the reason you essentially gave up on crop insurance was that it was your conclusion that we would pass a disaster relief bill here every year anyway. And it is kind of sad to me that that is the pattern. But I certainly share your view that we should not do both. We ought to either do one or the other, and not both.

It is a sad commentary on our ability to restrain ourselves, that we will apparently pass a flood or a disaster bill every year.

Second, I read the text of your recent speech to the wheat growers, and you mentioned in there the results of some bilateral negotiations with Japan on another commodity, tobacco. And I want to commend you for your efforts in your previous position to get the Japanese markets open for American cigarettes, and report to you that statistics are now even higher than they were a couple of months ago in terms of market penetration. We are now up to 15 percent of the Japanese market with American cigarettes, all of which came about, in my view, to a large extent, because of the bilateral negotiations which you and your successor engaged—she is engaging in as well in Korea and Taiwan.

I am wondering how you see the bilateral approach meshing with GATT submissions, and how comfortable you are that we may be able to get as good a result with GATT's admissions as we have obviously gotten with bilateral negotiations in the past?

Secretary YEUTTER. That is a very good question, Senator McConnell, a hard one to answer.

We have had a lot of success bilaterally in agriculture, in beef and citrus and tobacco in particular, and in some of the other areas

as well. The result of that is that farm incomes are substantially higher than they would be in the absence of those negotiations.

Certainly, Ambassador Hills, with our help, will continue to negotiate bilaterally on some of these issues where it is appropriate to do so. But that is a slow process, country by country, product by product.

Senator MCCONNELL. May I interrupt? I think some of the interest groups feel that it is in fact going to be a lot slower going the GATT route than it is the bilateral route.

Secretary YEUTTER. Well, time will soon provide that answer. Obviously, the multilateral route is faster if it is successful. Because we have 96 countries around the table instead of just one, and the entire gamut of agricultural products instead of just one. And there is some opportunity to have some tradeoffs with other areas too that might sometimes work to our advantage.

But it also complicates matters as it makes it a very tough negotiation, particularly with our friends from the European Community. And it is impossible at this point to know how much success we will have. We should know by December, which is when that exercise is scheduled to conclude.

My view, Senator McConnell, is that we ought to hit that process hard. You know, let us give it out best shot, try to get as much accomplished in the Uruguay round as we possibly can on agriculture and all other topics between now and the end of the year. And then, when that is through, we will have to appraise where we are.

If we have not succeeded multilaterally on agriculture, then it is imperative that we protect our self-interest internationally through our marketing practices and bilateral negotiations. And, that has implications to the budget here and the programs that come through this farm bill and others.

So we will have to change our strategy subsequent to the completion of the Uruguay round. If the Uruguay round succeeds, we will implement the agreements and hopefully get benefits around the world in much greater magnitude than what we had bilaterally. If the Uruguay round does not succeed in agriculture, we will have to adopt an entirely new strategy for doing business in the world.

Senator MCCONNELL. One final quick question and an entirely different subject.

I was somewhat distressed to see the $180 million cut in the School Lunch Program. And I wonder how you might defend that, Mr. Secretary?

Secretary YEUTTER. Well, it is not easily defended, Senator McConnell, because USDA would have preferred not to make that cut, just as we would have preferred not to have had some of the others.

But it all boils down to tradeoffs, as you know, and all of the debate over individual budget items. So our view is that if we have to cut back some, that is one area in which we can design a reduction that is at least tolerable, even though perhaps not highly desirable.

Senator MCCONNELL. May I just respectfully suggest that I think what will happen as a result of changing those eligibility standards is that some schools will simply discontinue it altogether. And that

is one area where I hope we will adjust your recommendations upward.

Thank you very much, Mr. Secretary.

Secretary YEUTTER. I would just add, Senator McConnell, that is obviously an argument that we made during the debate, and that may well occur. It is difficult to know with precision.

Of course, it is somewhat conjectural on the part of all of us, but that is one of the risks that one takes in making those changes. But obviously I am going to support the President's budget because it is my responsibility to do so.

Senator MCCONNELL. Thank you very much for coming, and thank you, Senator Boschwitz, for your sufferance here.

Senator DASCHLE [presiding]. Senator Boschwitz, do you actually have something to say?

Senator BOSCHWITZ. You bet. [Laughter.]

Well, I do. I would like to comment, Senator, about one of your comments. First, I want to compliment the Secretary for his presentation down here. It has been very interesting to watch the dance between you and some members of the committee who want to level a line of attack by saying that demand is to lower target prices. And that that would be the only outcome of this entire hearing, of course. And that is not the case at all.

It is always a mystery to me, all these budget conversations, that the budget, the actual spending goes up $2 billion, but you are cutting the budget by $1.5 billion.

Secretary YEUTTER. That is right.

Senator BOSCHWITZ. And that is why Congressman Frenzel and I have introduced bills that say that you ought to count the budget and the increase and the decrease on the basis of what you spent last year. That is the way that we do it in our business, and that is the way we do it in our homes. But somehow the Government comes up with this baseline concept that factors in inflation and factors in this and that.

We have cut so much from the budget. We have cut hundreds of billions of dollars in spending since I have been here, and have had the largest deficits that the Nation has ever had for which we are criticized.

Secretary YEUTTER. Amen.

Senator BOSCHWITZ. Yes. So it was interesting to watch the dance this morning. And I compliment you on it because I would have taken the same position. [Laughter.]

Maybe I would not cut target prices. As I look at the various set-asides that have been implemented in the last few years. And wheat, for instance in 1986 it was 22½ percent; went to 27½ percent, and 27½ percent, then 10 percent, and this year 5 percent.

When you lay aside that much land, you have to have higher prices on what you can raise on the remaining 72½ percent. The mortgage still has to be paid on that other part. The taxes still have to be paid on that other part. And you cannot follow good conservation practices on the major portion of the land that you plant. All of which is part of the reason that I have not been very entranced by the whole business of set-asides.

And you could indeed reduce some of those numbers in the event that you did not have these large set-asides of 35 percent. I think

what you have to pay on the remaining 65 percent in order to see that the mortgage and the taxes are paid on the 35 percent ought to be considered.

So I hope that some consideration will be given to the ideas of not having these ARP's. Lower target prices may have to be included, but not percentage by percentage. The elimination of a 10 percent set-aside does not mean that you can cut the target price by 10 percent because clearly the least desirable land is being put out of production.

Secretary YEUTTER. Senator Boschwitz, if I can just interrupt to say that I thoroughly agree with your philosophical discussion of set-asides.

We have, over and over again, through the years shot ourselves in the foot in the way that we have administered and managed our set-aside programs. We have assuredly reduced our production efficiencies, and we have assuredly lost market share——

Senator BOSCHWITZ. You bet.

Secretary YEUTTER [continuing]. Internationally as a result.

Senator BOSCHWITZ. You would be interested in some graphs about the growth of plantings of soybeans in South America. You know very well for every acre that our acreage is reduced—for every acre that we did not plant, they planted 4.

Secretary YEUTTER. Yes.

Senator BOSCHWITZ. Four new ones.

Secretary YEUTTER. Absolutely. And, of course, as you know, our flexibility provisions now give us some options for using that set-aside land.

Senator BOSCHWITZ. There are a few problems with my own ideas with respect to having a marketing loan on soybeans and having a soybean loan at $4.50, which is quite a bit above variable costs. It might drive some production into soybeans. We do not want to create those kind of results.

I really am interested to listen to my colleagues whom I hold dear and who I really respect. I listen to them and then I read in the statistics, the farmers are doing better. Then I listen to my friend from North Dakota, and the end is always near. I really cannot reconcile all those things.

He said this morning—I am sorry that he is not here—the target prices that he heard around this table, the target prices do not have a relationship to incomes. I did not hear that around this table this morning.

Then he talks about a 40 percent reduction in income while target prices are held at the present levels. I must say that I have seen so many studies now that I have kind of given up on studies. Though I must say you have to keep reading them. [Laughter.]

You have to because you have to simply see what those who are thinking about agriculture are talking about and thinking about.

The policy that I hope comes out of the farm bill is a good policy that is market-oriented and that will continue to increase our farm exports around the world. They have risen now from a low of $26 billion back into the $40 billion-range, and are going to go up.

Secretary YEUTTER. If I can just interrupt right there, for a second?

Senator BOSCHWITZ. Yes.

Secretary YEUTTER. But it gives me an opportunity to say that demand is a dynamic concept, not a static concept. And one of the things that has disturbed me about some of the discussion around the table this morning, and all the concern about what is going to happen to prices and incomes is that people seem to assume that there is a finite pie, and that we are manipulating numbers that relate to that finite pie.

Somehow, we have to get people on this committee and among all the farmers of the country to understand that we are dealing with a very dynamic concept and one that is likely to be even more dynamic in the next decade than it has been in the past decade. We can affect the demand for farm products domestically through things like clean air legislation and research, and a lot of other things—biodegradable plastics, for example—and we can assuredly affect demand internationally a very great deal.

We have to understand that there are opportunities out there to significantly improve incomes from where they are today out of the marketplace. We do not have to do it through government.

Senator BOSCHWITZ. I very much agree, and I must say to my friend from South Dakota I was somewhat shocked when he said that if you cannot make a profit on the first bushel, how can you make it on the thousandth bushel? My experience in business is that there is no way to make profit on the first sale. You have to get up to the thousandth sale in order to make a profit, and there is a dynamism to the market; and that there is nothing static about it. Look at what is happening in Eastern Europe. If the Chinese get back to the business of some reforms that will increase their income, if they really rise from the $400 average national income to $900 by the end of this decade, I am not sure we are going to be able to produce enough oilseeds. And there has got to be something said for volume. Not only is there something to be said for volume, but there is something to be said for volume related to the whole infrastructure of agriculture, which I also represent.

Secretary YEUTTER. Yes.

Senator BOSCHWITZ. The guys who haul it, whether it is on the rivers or on the roads, and the guys who insure it—the guys who handle it in the warehouses and elevators, and everywhere else—and the people who sell the farm machinery, they, also, are part of my rural constituency. Volume is a very, very important element in what is going to happen in rural parts of my State or my friend from South Dakota's State, or any other State in the Union.

Secretary YEUTTER. Sir, that is what we call rural development——

Senator BOSCHWITZ. You bet.

Secretary YEUTTER [continuing]. Senator Boschwitz. And if we shrink our agricultural production plan, which seems to be the desire of some folks—I hope not many—but if we shrink our agricultural production plant, we shrink the entire rural community.

Senator BOSCHWITZ. Oh, yes.

Secretary YEUTTER. And we have a devastating effect on businesses that are auxiliary to farming.

Senator BOSCHWITZ. Then my——

Senator DASCHLE. Would you——

Senator BOSCHWITZ. Certainly.

Senator DASCHLE. I would like to interject briefly. I do not mean to say that volume is not a factor here. And there is a dynamic to demand that we have to take into account.

[There was a total power failure in the hearing room.]

Senator DASCHLE. But I would hope that we could also appreciate the importance of smaller units of production. Volume alone is not going to bring about the kind of economic viability they need.

Small business people in small towns understand that better than anybody, because they are getting volumed out of existence by the K-Marts, the Wallmarts and everybody else who is telling them there is no more place in marketing for family businesses.

Senator BOSCHWITZ. Well, I tell you that I would be happy to compete against Wallmart. And it is not so difficult to compete with them. Furthermore, I think that there has to be consideration between price and volume. You cannot give it away. But to say that if you cannot make a profit on the first bushel—that you will not make it on the thousandth—is a misunderstanding of economics that are played in the marketplace.

Let me also say that I heard this morning, from my friend from North Dakota, that around this table there is talk about unilateral disarmament; that you are not ready to fight the market. As I read the EEP provisions that you were supporting, that certainly is not the attitude that I perceive. You are interested in fighting the markets. Then to say that the policy of the United States is putting more emphasis on the dollar after the dollar has sunk so far—I could not believe my ears.

I would like to point out—even though the record is not any longer being taken—that the American Farmland Trust took a little poll. They asked, "Would you favor a change in commodity program rules to permit farmers to plant more acreage in rotational crops without losing their base?" In other words, flexibility. They answered just as you did, Mr. Secretary.

In Renville County, Minnesota, 89 percent favored that. In California, Butte County, 75 percent favored it. And in Washington, Whitman County, which is the dairy area, 88 percent favored it. I hope that members of our committee will not confuse flexibility with anything else. This is not an effort to sneak in decoupling—words that we call decoupling—but it is an effort to give farmers an opportunity to make some choices. And it is important that my friends on both sides of this table not misread what you have in mind.

I would ask, also, Mr. Secretary, that you give a breakdown of the $10.4 million that the Farmers Home Administration has to write off this year. I know that there are delays, but I like to believe that those are not involving subsidies.

Secretary YEUTTER. Sir, they are complete losses. They are in no way reflective of industry. That $10.4 million is what most of us would call bad debts.

Senator BOSCHWITZ. Or mark-downs or inventory management—just writeoffs?

Secretary YEUTTER. That is right.

Senator BOSCHWITZ. We are going to have to address a basic problem in this committee. Do we want money that could be attrib-

utable to agriculture in that area, or do we want to direct it in various other programs, or export enhancement programs and so forth?

I also want to say in conclusion, Mr. Secretary, I do not recall that the administration came here in 1981 and 1985 for the farm bill with all the language submitted here, and every "t" crossed and "i" dotted. I do not recall that at all. I compliment you for it, and look forward to your responses—and in playing an active role in it. And thank you for your patience here this morning. I think that we are making progress in agriculture that will continue from the 1985 farm bill. It will be better for the farmers. It will be better for the infrastructure, and it will be better for rural Americans.

Secretary YEUTTER. Thank you, Senator Boschwitz. I would simply say that I appreciate those accolades, not because they are directed to me, but because we had a lot of people who worked tremendously hard in the preparation of this document, and I personally consider it to be a quality piece of work.

Finally, I would say that I do not believe there is anything in here that would be construed as unilateral disarmament, as far as the United States is concerned. I can evaluate that from my position as a trade representative.

The CHAIRMAN [presiding]. I leave you alone for 5 minutes, and this happens. [Laughter.]

Senator BOSCHWITZ. I started to talk, and everything went out.

The CHAIRMAN. Was it too obvious, Rudy? [Laughter.]

Senator BOSCHWITZ. They love to kid me.

Secretary YEUTTER. I think the chairman got two of us for the price of one.

Senator BOSCHWITZ. The poll that I referred to that illustrates the farmer's approval of flexibility was taken by a group now being run by a staff member who formerly served on the other side of the aisle, a very competent person.

I thank you very much, Mr. Secretary, and I thank the chairman.

The CHAIRMAN. Thank you very much. I do not know what did happen, Mr. Secretary, but well, somebody told me we blew a fuse out here, and I just assumed that was in reference to some explosive question that you asked, Rudy. I am pretty darned impressed. In 16 years on the committee, I have never had a time when the Secretary of Agriculture and the members got in such a heated situation that the fuses blew. We came very close over the years, but never quite.

I will put most of my questions into the record. I do have a number of questions concerning food safety and nutrition programs. Nutrition programs have to be a major part of this farm bill, as I alluded to earlier in my opening statement.

I have also noticed on the dairy proposal, Mr. Secretary, you have asked to double the amount that you could use to reduce the support price. In fact, you have asked to cut the support price even if purchases fall less than 3 billion pounds.

Under your proposal, what do you think the support price of milk would be in 1992?

Secretary YEUTTER. We would have to have our economists provide some analysis of that, Mr. Chairman. I do not have any num-

bers with me. I will be glad to provide them for you, if we can look that far into the future. We have not really changed that system very much. What we have tried to do is add in a little additional flexibility without making any major changes. I do not have strong feelings about the quantities and numbers that have been suggested.

The CHAIRMAN. If you could have your people provide for us the analysis of where they see the support prices for the next 5 years under this farm bill will be, because it appears to me—and I want to make sure that I mention this—the dairy proposals basically are just a series of cuts into the foreseeable future. I want to get something more into the dairy program than that.

Secretary YEUTTER. Well, there really is not, Mr. Chairman. We think what you did in the dairy program back in the 1985 bill makes considerable sense; that is, you tied the discipline of the support prices to production levels. And it just seems to me that that is a good way to do it, and I think we ought to continue it into the future.

Our recommendation here simply reflects that some additional flexibility surely does not reflect any desire to bring rates down.

The CHAIRMAN. You could cut it far more than you could today. I also would like to see a proposal that goes more to just not total pounds, but the fat profit. We could use cheese. We could use nonfat dry milk. I would like to see some proposals. I would urge your folks to work with us on this.

Secretary YEUTTER. We will be glad to discuss all of that with you at any time, Mr. Chairman. We really were not trying to change the system in any significant way when this recommendation came out. In fact, my assistant just said he believes it will change less, rather than more.

The CHAIRMAN. If I could see that analysis, because I am worried that we work at cross-purposes. We see dairy price supports drop, but we also get announcements that 15 million Americans will no longer get powdered milk or cheese with the TEFAP program. Schools need some of these dairy products for the School Lunch Program. So if I could have your analysis, with or without the introduction and a section on bST. Does the analysis change if bST is in there? I am a little bit concerned that those persons looking at it are not concerned with the commercial, but the scientific aspects of it.

So what is the analysis for 5 years, assuming no bST? What is the analysis for 5 years assuming bST? The rest of the questions I will submit for the record. The other Senators have used the dimming of the lights as a chance to leave.

We will stand in recess, and thank you very much.

Secretary YEUTTER. Thank you very much.

[Whereupon, at 12:59 p.m, the committee recessed, to reconvene at 9:35 a.m., Wednesday, February 21, 1990, in room SR-332, Russell Senate Office Building.]

[Material submitted for inclusion in the record follows:]

APPENDIX

PREPARED STATEMENT OF HON. LARRY PRESSLER, A U.S. SENATOR FROM SOUTH DAKOTA

The heart and soul of the 1990 farm bill will be its price support system of target prices and loan rates. As we look at target prices and loan rates under the 1990 farm bill we must remember the goal of our farm bill should be to stabilize agricultural production and protect our rural economy. The scheduled decline of target prices and loan rates in the 1985 farm bill cannot continue into the 1990's. Current target prices and loan rates do not offer the necessary price protection needed to meet production costs. It is imperative that the 1990 farm bill set target prices and loan rates at levels where farmers can prosper. Increased flexibility and the administration's proposed conservation measures are a step in the right direction, but I cannot support a farm bill if it slashes loan rates and target prices.

Farm families and rural America have been helped by the Food Security Act of 1985. Under the provisions of the 1985 farm bill thousands of South Dakota farmers and ranchers were able to continue operating their farms and ranches because commodity prices were adequately supported. For many operators, the deficiency payments they received were the only funds available to them to plant their crops and operate their farms. Now, as we look to creating farm legislation for the 1990's, we must draw from the positive aspects of the 1985 farm bill, make needed corrections and improvements, and create an even more successful 1990 farm bill.

It is vital that we allow producers the flexibility to plant their crops according to market demands without losing individual commodity bases. Because commodity crop bases add considerably to a farm's value, operators plant their crops according to farm program regulations which preserve these bases. This has resulted in farmers "farming the program" rather than planting according to what the markets demanded. Consequently, we experienced surpluses of some commodities, shortages of others, and forced increased imports of commodities such as oats.

The benefits of increased planting flexibility are many. More crop rotation could be practiced. Rotation not only helps prevent soil erosion, but often permits decreased chemical and fertilizer inputs, which in turn has a positive environmental impact. More acres of nonprogram crops probably would be planted, and this would decrease expenditures for deficiency payments. Crop production would be geared more closely to current market demands, which would balance surpluses and shortages.

An important issue which must be addressed in the 1990 farm bill is the penalty system for sodbuster/swampbuster violations. Under 1985 farm bill regulations I have seen some South Dakota farm operators who stand to lose over $50,000 in Federal program payments for sodbuster/swampbuster violations. They could be driven from their farms because of a violation which occurred on a small acreage. This cannot continue. The preservation of wetlands and protection of highly erodible land is vital to our ecological system. However, because penalties are so severe, sodbuster/swampbuster regulations have not been adequately enforced. We need to assess penalties commensurate with the severity of the violations, rather than force a farmer to lose his farm because of one infraction. Penalties must be severe enough, though, to discourage producers from violating the law.

The Conservation Reserve Program (CRP) has taken more than 30 million acres of highly erodible land and wetlands from production. This has enhanced wildlife habitat as well as protected our environment. CRP filter strips stop sediment and chemicals from entering many streams and rivers. Millions of tons of precious topsoil are no longer being washed or blown away from millions of acres of highly erodible cropland.

Some changes should be made in the CRP program. Potentially erodible cropland should be made eligible for enrollment in the CRP program even if it does not meet current cropping requirements. Many operators enrolled their eligible highly erodible cropland in the CRP program and then broke up and farmed other erodible cropland which was not eligible for enrollment in CRP. This is counterproductive. Also, many farmers who used sound conservation practices on their highly erodible cropland found that this land was not eligible for enrollment in CRP. They should not be penalized for good conservation management.

We must take a look at the current system of making deficiency payments. The present system allows for advance deficiency payments to be made based on USDA market price projections for the commodity crop marketing year. If projections are in error and market prices are higher than projected, then advance deficiency payments should be refunded. We should look at a new deficiency payment system that would guarantee advance payments. Thousands of farmers are adversely affected by our current deficiency payment system.

Finally, we must realize that we are working under a deadline as we put together this important legislation. Planting season will not wait for new farm legislation. It is imperative that we have the 1990 farm bill ready for our farmers by early summer. Farmers need to have a sound, effective farm bill in place before they begin planting 1991 fall-seeded crops.

QUESTIONS SUBMITTED BY SENATOR LEAHY AND RESPONSES THERETO

BANCA NAZIONALE DEL LAVORO [8]

We understand that an Atlanta branch of an Italian bank has done significant business under the CCC credit program.

Question. Is there any evidence that the benefits of this program were misused by the bank? Were the commodities covered by the CCC guarantees shipped to Iraq as guaranteed through the CCC program? Do you believe that the CCC is at increased risk of default from the outstanding loans held by this bank?

Please report to the committee the current status of CCC credit to Iraq through the GSM programs and a review of when such loans were made. What is the USDA assessment of Iraq as a recipient country for future GSM credit programs?

NUTRITION ISSUES

1. Heart disease, cancer and stroke are our number one, two and three causes of death in the United States. The *Surgeon General's Report on Nutrition and Health* concluded that improvements in diet can significantly reduce the incidence of these diseases.

Americans are concerned about what they eat—but current USDA labeling practices do not require sufficient nutrition information, and are confusing. For example, products touting "no cholesterol" may contain saturated fatty acids which are much more powerful, according to the Surgeon General, in raising plasma cholesterol levels than cholesterol in a food product.

Many Americans want to know how much saturated fat, vitamins, minerals, protein, fiber, calories, sodium, cholesterol and sugar are in their food. All too many need to know for medical reasons.

Question. Will you work with me to devise some appropriate way to convey important health information to the American consumer?

Answer. FSIS is very interested in improving the information available to consumers on meat and poultry product labels. One of the Agency's major areas of emphasis is label reform. We believe that consumers are looking for more information in order to make informed choices about diet and health.

As you know, USDA, in conjunction with FDA, has contracted with the National Academy of Sciences (NAS) to review food labeling policies. NAS, through an expert panel of scientists, will suggest options for improving Federal food labeling policies. We anticipate that the NAS recommendations will encompass nutrition labeling as well as the content and format for food labels which will best communicate nutrition information to the public.

2. The role of diet regarding coronary heart disease, strokes, cancer, skeletal disease, neurologic disorders, anemia, gastrointestinal or kidney diseases, and impaired

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[8] See pp. 516 to 525 and 548 to 551 for testimony relating to this issue.

mental and physical functioning is well documented in the *Surgeon General's Report on Nutrition and Health.*

USDA does not allow information about how foods contribute to healthfulness—health claims labels—to be placed on foods.

Question. Will you work with me to devise some appropriate way to convey important health information to the American consumer?

Answer. FSIS agrees that food labeling can be an important tool for educating consumers about the connection between diet and health. We support efforts to provide consumers with information needed to make sound dietary choices. We anticipate that the National Academy of Sciences expert panel on food labeling will address these issues and will provide recommendations on the best means of communicating information on diet and health to the public.

Question. Will you reconsider your position and support an extension of the current mandatory purchase program for TEFAP, as set forth in the Hunger Prevention Act of 1988?

Answer. The Department's proposal does support the continued mandatory purchase program for TEFAP. The Department has recommended continuing the funding for surplus commodity purchases under the TEFAP at $120 million annually.

Under the President's 1991 budget proposal funding for the School Lunch Program is cut by $180 million. In addition, the levels of donated commodities provided to schools have substantially dropped in recent years. I understand that the last time major cuts were implemented that 2,000 schools dropped out of the program and 2 million to 3 million children were adversely affected—almost 1 million of them were poor.

Question. Has the Department done any surveys to determine how many schools are likely to drop out of the program if the President's proposed reductions were to be enacted? Also, have you conducted a study to determine how many poor children could be adversely affected by decisions to terminate participation in the program if the President's proposed school lunch cuts were enacted?

Answer. Our proposal only affects subsidies for meals served to children from households with incomes above 350 percent of poverty, about one-in-five children. Even schools most affected by the proposal—those serving over 80 percent of their meals to children from households with incomes above 350 percent of poverty—will continue to receive over 80 percent of their total revenue and subsidies, after accounting for decreased participation due to higher prices. Schools retain most of their meal program funding because USDA support for paid meals is a small proportion of total revenue and subsidies. It is unlikely that a school retaining this level of subsidy would drop the program.

It is useful to examine what occurred following enactment of the Omnibus Budget Reconciliation Act of 1981 (OBRA). OBRA reduced cash reimbursements for paid and reduced price meals and commodity subsidies for all meals. At the time it was passed there was great concern that it would cause large numbers of schools to drop the program and leave many needy children unserved. In fact, about 1,500 schools out of 94,000 left the program, and most of these were either private schools excluded because of high tuitions, or small, affluent schools. A number of schools which dropped the program reported in a followup survey that they continued to provide free meals to needy children.

The impact of our current proposal will be much smaller than OBRA.

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Answer. The Department has not done any surveys, however, it is useful to examine what occurred following enactment of the Omnibus Budget Reconciliation Act of 1981 (OBRA). OBRA reduced cash reimbursements for paid and reduced price meals and commodity subsidies for all meals. At the time it was passed there was great concern that it would cause large numbers of schools to drop the program and leave many needy children unserved. In fact, about 1,500 schools out of 94,000 left the program, and most of these were either private schools excluded because of high tuitions, or small, affluent schools. A number of schools which dropped the program

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Question. The President's fiscal year 1991 budget calls for a cut of $235 million for the School Lunch Program. In the past Congress has rejected cuts in this important nutrition based program based on evidence that with decreased general support for operating their School Lunch Program, schools would drop out of the program altogether. Was this factor taken into consideration?

Answer. Previous proposals to cut funding for the national School Lunch Program eliminated cash and commodity subsidies for all paid students—those children from households above 185 percent of poverty. The current proposal is significantly different. First, benefits are reduced only for children from households with incomes above 350 percent of poverty, over $42,000 for a family of four. Second, the proposal increases subsidies for meals served to children in the reduced price category. The combination of these two changes retargets program funds to more needy children while producing net savings of about $180 million in fiscal year 1991.

We do not anticipate that many schools will drop the program as a result of the proposed changes. Even schools most affected by the proposal—those serving over 80 percent of their meals to children from households with incomes above 350 percent of poverty—will continue to receive over 80 percent of their total revenue and Federal subsidies, after accounting for decreased participation due to higher prices. Schools retain most of their meal program funding because USDA support for paid meals is a small proportion of combined student revenue and Federal subsidies. It is unlikely that a school retaining this level of subsidy would drop the program.

Question. To facilitate a congressional inquiry into the matter of why the former Board was terminated, and the resignation of the replacement Chairman, please provide me the names of USDA personnel, and OMB personnel (if any), responsible for eliminating the former State Food Stamp Appeals Board. Please provide me with the list of the former and current Board Members and how they can be contacted.

Answer. On January 10, 1989, former USDA Secretary Richard Lyng wrote to State Food Stamp Appeals Board Chairman, Orval Kerchner, Agricultural Stabilization and Conservation Service, and Board members, Larry Slagle, Animal and Plant Health Inspection Service, and Vivian Culp-Mann, Office of the Secretary, advising that he would soon be appointing new Board Members. He asked them to complete work on cases awaiting only their final decisions and thanked them for the service they had rendered to the Department. He further said he appreciated their willingness to take on the additional task (copies of letters attached).[9]

Secretary Lyng appointed Robert D. Hausenfluck, Deputy Assistant Secretary for Administration, on January 13, 1989, as the new Chair. Robert Sherman, OBPA, was appointed as a Board member on the same date.

Chairman Hausenfluck resigned from the Department in May 1989 to accept a job in the private sector. As President's Bush's administration was making the transition to leadership in the Department, appointment of a new chair and additional Board Members took longer than it otherwise might have taken. During the interim, Kathy Connelly, member, resigned from the Board August 28, 1989, due to the press of additional responsibilities in her primary position as Departmental Deputy Director of Personnel. Secretary Yeutter subsequently named Robert D. Sherman, OBPA, Chair; Lisa Zannoni, Confidential Assistant to the Assistant Secretary for Science and Education, a member; and Charles A. Bucy, Office of Operations, a member, on December 11, 1989. Thomas C. Rubel, Office of Transportation, USDA; Elizabeth Laugharn, Food Safety and Inspection Service; and Francine Linde, Animal and Plant Health Inspection Service, were designated alternate members on the same date. Charles A. Bucy, who was asked to serve on the Board in June 1989,

[9] The letters referred to in this answer will not be a part of the printed hearing record.

retired from the Department shortly after his appointment to the Board. The position he vacated has not been filled at this time.

There was no involvement by the Office of Management and Budget personnel in any of these actions.

Attached, as you requested, are lists of current and former Board Members who are still employed in USDA. Addresses are provided for current employees. Others have retired, changed jobs, etc. We do not have information on their whereabouts.

[The attached list of current board members follows:]

CURRENT BOARD MEMBERS

Mr. Robert E. Sherman, Deputy Director of Budget, Legislative and Regulatory Systems, Office of Budget and Program Analysis, U.S. Department of Agriculture, Room 109A, Administration Building, Washington, D.C. 20250

Ms. Lisa Zannoni, Confidential Assistant to the Assistant Secretary for Science and Education, U.S. Department of Agriculture, Room 217W, Administration Building, Washington, D.C. 20250

Ms. Elizabeth Laugharn, Deputy Director, Legislative Affairs, Food Safety and Inspection Service, U.S. Department of Agriculture, Room 2175, South Building, Washington, D.C. 20250

Mr. Thomas Rubel, Confidential Assistant to the Administrator, Office of Transportation, P.O. Box 96575, 2121 K Street, N.W., Washington, D.C. 20090-6575

Ms. Francine S. Linde, Confidential Assistant to the Administrator, Animal and Plant Health Inspection Service, U.S. Department of Agriculture, Room 1147, South Building, Washington, D.C. 20250

Question. The President's budget requests $2.215 billion for WIC. USDA estimates that 4.7 million women and children can be served by this level of funding. WIC is cost effective and the most broadly supported nutrition program. Since WIC serves only about 60 percent of those eligible for the program, would further increases be justified at this time?

Answer. As you have noted, the WIC Program currently serves a significant percentage of the eligible population. Furthermore, WIC resources are well targeted so that service to pregnant women and infants now approaches saturation. We estimate that about 90 percent of eligible pregnant women and almost all eligible infants participate in WIC. Furthermore, we expect the degree of service to other categories of eligible persons to increase in fiscal year 1991 under the administration's proposed budget of $2.2 billion in combination with food cost containment initiatives mandated by Congress (infant formula rebates).

The dramatic program expansion made possible in a very short time period by infant formula rebates over the past 2 years has placed some stress on the WIC Program service delivery infrastructure. In light of the fact that high priority participants are well served at participation levels envisioned in the President's budget request and the strain on local agencies' ability to provide quality services, we do not support further major increases at this time.

Question. Were any scientific studies on hunger in Puerto Rico relied upon to justify those cuts to well over $800 million below the level that would be provided if Puerto Ricans were eligible for food stamp assistance? Please provide me with copies of any such hunger or nutrition studies regarding Puerto Rico.

Answer. We are unaware of any studies on hunger or nutrition in Puerto Rico. The proposal would establish a broad-based assistance program for Puerto Rico giving the Commonwealth extensive flexibility to tailor the program to the needs of its low-income households.

Question. The President's budget calls for a means test for family day care providers participating in the Child Care Food Program. I am concerned that this approach is simply not workable or practical for day care homes. Most of the children cared for in day care homes are neighbors or relatives. This committee has heard testimony that a means test would require the collection of sensitive financial information from the neighbors or relatives and could in fact drive the day care providers out of the food program and underground. Clearly that would not be beneficial to the child care situation in general. Would you agree?

Answer. The provision in the President's budget which would require a means test in family day care homes, is in fact, a reinstitution of one in effect prior to the enactment of Public Law 95-627 in November 1978. Day care home providers receive the equivalent of a free meal subsidy for meals served to all children regardless of income. Children in a child care center and in schools receive Federal subsidies based on family income. If participants in family day care homes were treated

the same as those in child care centers and schools, only about 29 percent of the children would be eligible for free meals. About 71 percent of the family day care home participants are from households with incomes about 185 percent of poverty. Their household median income exceeds $33,000 for a family of four and they would be eligible for a lower subsidy, corresponding to their ability to pay for meals.

We can appreciate the argument that providing income information might cause concern on the part of parents and providers in some instances. However, we believe that it would have little if any impact on the child care situation in general. Further, we believe that information like this is provided regularly under all the other child nutrition programs and in some cases under comparably sensitive situations. Also, family day care homes participate in the Child Care Food Program through sponsoring organizations. In order to avoid concerns about sharing sensitive information with friends or relatives, we expect that many of the sponsoring organizations would handle the paperwork associated with our proposed means test.

FOOD SAFETY

1. The food safety initiative has the goal of public education and prevention of unsafe residue levels.

Question. Does this mean educating consumers about the level of pesticide on food?

Answer. Yes. The recent National Academy of Sciences report "Improving Risk Communication (1989)," stresses the importance of *early, open,* two-way communication on issues that affect people's lives. Pesticide use is one of those issues. The report also stresses the danger of delaying the process of transferring information until agencies feel that the information is complete. The consumer tends to equate a lack of information with a heightened sense of hazard. In addition, our proposed initiative would tap existing USDA consumer education programs—the toll-free Meat and Poultry Hotline, the nationwide network of extension agents, and the extensive array of consumer publications to communicate to the consumers how common pesticides are used in agriculture, the level of their use, and the public health impact of their use.

Question. If education of consumers is the goal, does this mean USDA will be certifying the safety of food (like the California effort to do this)?

Answer. No. There is no practical way to certify that all food is free from pesticide residues in the food chain. The best we can do, is to design the monitoring program to encourage the industry and producers to follow good agricultural practices in their use of agricultural chemicals and, if necessary, find and use alternative farming practices, if warranted. The program as designed will identify residue trends and problems. Once identified, USDA corrective action, i.e., research or education programs can be used to solve the problem.

Question. Won't consumers be confused if USDA says their food is safe and FDA says it is not? Is USDA going to defend chemical use by contradicting FDA regulatory action?

Answer. The USDA and other agencies involved in this initiative will consult with one another regarding tolerances for pesticide chemical residues.

Question. How can this be avoided? The program is independent and plans to communicate risk assessments to the public. However, what if USDA has a different assessment of risk? If the risk assessment is the same, why a new program?

Answer. The USDA system is designed to determine the presence and amount of pesticide residues in certain agricultural commodities as well as the quantities of these commodities consumed by the U.S. population. The procedures proposed would provide estimates of pesticide residues in agricultural commodities consumed by individuals. This information will be provided to EPA and FDA for risk assessment purposes.

By contrast, the estimates of dietary intake of pesticides provided by FDA (Total Diet Study) are based on analysis of representative table-ready foods, many of which are combination foods containing several commodities. Currently, the Total Diet Study is based upon data from the 1977–78 Nationwide Food Consumption Survey and the Second National Health and Nutrition Examination Survey. Revisions planned for the Total Diet Study will be based on USDA's 1987–88 food consumption data for the more than 5,000 foods in the USDA data base. About 250 specific foods are selected, each representing a category of foods. The specific foods are chemically analyzed for pesticide residues, but intake data are for a category of food.

Residues found in these representative foods from the Total Diet Study cannot be associated with any specific agricultural commodity, whereas the USDA system

would. National estimates of potential human exposure to pesticides will be derived by linking two USDA data bases—one which provides national estimates of pesticide residues found in agricultural products and another which provides national estimates on food intake.

Question. Does this provide any assurance to the public?

Answer. Yes. Better regulatory decisionmaking will be possible through more realistic risk assessments, deeper understanding of consequences resulting from pesticide use, and the development of comprehensive residue monitoring programs. Scientifically based information will help to narrow the gap between public perceptions and expert knowledge with regard to the safety of the U.S. food supply.

2. The residue testing program is voluntary.

Question. Does that mean producers can request testing to get a USDA stamp of approval? Does this apply to farmers, food companies, processors, distributors—what level? Isn't this the concept behind the heart guide?

Answer. No. This program is not designed to be a regulatory monitoring residue program. Presently, there is no labeling issue built into the data initiative.

3. Prevention is a major goal of the program.

Question. Does USDA intend to track down the source of excessive residues to the farm gate and assist farmers in changing practices to meet legal limits? Or does this simply mean USDA will report excessive residues to FDA so that food can be removed? Will public education include information on residue violations?

Answer. No. The monitoring program will be designed to provide USDA information concerning the frequency of residue levels in specified commodities. The information from the monitoring program could be used as a basis for further EPA or FDA regulatory action. Other auxiliary uses of the data are to identify residue trends and to identify problems within the industry where educational or other corrective efforts may be needed.

4. The program is voluntary.

Question. How will an unbiased risk assessment be made if food is not randomly tested?

Answer. As designed, the USDA program would be a sound, statistically based monitoring program for pesticide residues. The program would better enable EPA and FDA to employ risk assessment and management procedures to balance the benefits of pesticides use against its potential risks to human health and the environment.

Risk assessment is a complex process which depends on the quality of scientific information that is available. It is best for assessing acute risks where effects appear soon after exposure occurs. Uncertainty becomes greater the longer the period of time between the exposure and the appearance of symptoms. This is due to the greatly increased uncertainties in exposure assessment and also the problems involved in using epidemiological or laboratory animal results in such cases.

CONSERVATION ISSUES

Filter Strips

Question. Are filter strips really an effective means for reducing off-farm sediment damages (effective in both the technical and economic sense)?

Answer. Numerous published studies document the positive effects that filter strips have in reducing off-farm sediment damage. We are currently supporting work by the Agricultural Research Service and land-grant colleges on the effectiveness of filter strips on water quality to improve our planning and implementation techniques.

Question (1). What are the total acres that these 48,000 acres of strips will be filtering, and how much sediment is expected to not enter waterways as a result of their presence?

Answer (1). Due to the fact that drainage areas associated with filter strips vary widely depending on local topography, there are no available estimates for the total area which the strips will filter, nor for how much sediment will be intercepted.

Question (2). What are the annual rental payments to be made on these 48,000 acres?

Answer (2). Figures for specific rental rates vary by county and are not readily available by the eligibility criteria under which the land came into the program. However, the National average rental rate for all CRP acres to date is $48.93 per acre. Using the $48.93 average times 48,000 equals $2,348,640.

Question. How does the annual rental payment cost of reducing off-farm sediment damage with these 48,000 acres (annual dollars per annual ton of sediment damage controlled) compare to the similar cost for achieving such control through enrollment of HEL in similar parts of the country?

Answer. The cost of sediment damage reduction on the 48,000 acres in filter strips and how this cost compares to the cost of keeping the soil in place on HEL is not known. However, two studies of filter strips are underway that will provide more information on the effectiveness of filter strips.

Question. In the context of the Section 319 watersheds, would filter strips in fact be a useful instrument for erosion damage control?

If yes, can you identify where filter strips should be best located in these watersheds to achieve cost-effective damage control?

Answer. Filter strips can be an effective practice in the reduction of sediment in streams and lakes identified in 319 plans. The technology exists to provide the locations in these watersheds where filter strips would be most effective.

The Fate of CRP Lands at the End of the Contract Period

Question (1). Please estimate, by State, the number of CRP acres for which conservation compliance would be the most cost effective control measure.

Conversely, please estimate the number of acres by State, for which a farmer could not be reasonably expected to achieve erosion control through conservation compliance (where, given the characteristics of the land and the range of crops that can be grown, the likely cost of implementing the plans exceeds what would be reasonable). (In your response, please include a description of the analytical basis for the answer—i.e., if the land capability classification system is used to generate these estimates, please describe how this classification scheme is used.)

Answer (1). It is not possible to provide meaningful estimates of CRP acres for which conservation compliance would be the most cost-effective method of erosion control. Our policy has been to develop conservation plans that allow farmers to remain in operation. These plans are tailored to meet the goals, objectives, and capabilities of individual fail operators. The cost and benefits of conservation compliance will ultimately be factored into the farm management equation and along with other factors, including price expectations, govern the selection of crops and cultural practices.

Likewise, we are unable to provide meaningful estimates of the acres of highly erodible cropland for which a producer could not be reasonably expected to achieve erosion control through conservation compliance. We believe, through application of reasonable and practical conservation practices, the number of acres not achieving erosion control through conservation compliance would be a very small percentage of the 118 million acres of highly erodible cropland—probably less than 2 percent.

Question (2). On those lands for which compliance measures are not reasonable, does the Department believe these lands should remain out of annual row crop production at the end of the CRP contract period?

Answer (2). The Department believes that decisions regarding whether or not to bring land enrolled in CRP back into annual row crop production at the end of the contract period should be that of the producer.

Question (3). Is there any legal reason why it is not appropriate to enact legislation in the 1990 farm bill affecting CRP contract holder behavior when their contracts expire beginning in 1996?

Answer (3). We believe that there is no legal impediment to enacting legislation affecting treatment of CRP lands after contract expiration, provided the legislation affected only those lands enrolled after passage of the legislation. To the extent that new legislation affected already existing CRP contracts, there could be substantial problems in that such contracts have already established a series of mutually agreed-upon obligations between the Government and the participant. Any legislation adversely modifying the nature of the contract to the participant could, we believe, discourage future participation by the public in long-term, voluntary USDA programs.

Question. The Soil and Water Conservation Society recently completed an evaluation of the Food Security Act of 1985 conservation provisions. One of the conclusions of the evaluation was that although there are good wildlife benefits from the CRP, little was done to specifically enhance the wildlife amenities from the land enrolled into the CRP. The evaluation also concludes that "many opportunities to maximize wildlife habitat on CRP acres were lost".

Some are suggesting that we seek more actively to get effective wildlife plantings on the lands currently enrolled into the CRP.

In your opinion, do you have sufficient legislative authority to actively enhance the wildlife plantings on current CRP acres?

Do you have any suggestions as to how such a program might be implemented?

Answer. The Department does not support the Soil and Water Conservation Society's conclusion that many opportunities to maximize wildlife habitat on Conservation Reserve Program (CRP) contracts were lost. CRP wildlife accomplishments must be reviewed in light of the multiple objectives and voluntary nature of the program. Many CRP participants do not have the economic luxury of making planting decisions that would maximize wildlife habitat. Producers and USDA have already made a substantial commitment to wildlife enhancement.

CRP's wildlife accomplishments include:

(1) Restoration of over 8 million acres of native vegetation;
(2) 2 million acres of wildlife habitat enhancement;
(3) Restoration of 400,000 acres of wetlands;
(4) 6,000 stream miles of riparian habitat;
(5) 2,500 miles of field windbreaks;
(6) 12,000 acres of shallow water areas;
(7) 2 million acres of trees; and
(8) 15,000 acres of wildlife food plots.

USDA is proud of these accomplishments and will continue to promote wildlife habitat development in the CRP. While developing the CRP conservation plan the technician reviews with the producer ways of enhancing wildlife habitat. The producer reviews and selects an option that best fits the producers unique goals and also satisfies the other conservation objectives of the program. Wildlife habitat enhancement is then incorporated in the design of the conservation plan. This is the most cost effective and efficient way to incorporate wildlife enhancement into the CRP.

The current legislation provides sufficient statutory authority to allow the Department to permit cost sharing for wildlife enhancement on land currently enrolled in CRP. We do not feel that cost sharing for wildlife enhancement of land that has already been established to vegetation is either the most cost effective or efficient manner to maximize wildlife habitat.

Wildlife Benefits From the CRP

Question. In your opinion, do you have sufficient legislative authority to actively enhance the wildlife plantings on current CRP acres?

Question. Do you have any suggestions as to how such a program might be implemented?

Answer. Yes. Currently, we have the authority to actively enhance wildlife habitat plantings on CRP acres. If a landowner expresses an interest in wildlife our employees will revise the conservation plan to incorporate wildlife plantings. We believe that wildlife habitat is less likely to be converted back to cropland when the contract expires. We have encouraged landowners to incorporate wildlife plantings, however, the decision is that of the landowner.

Wildlife habitat was taken into consideration as seeding recommendations for CRP plantings were developed. The establishment of native grasses, tame grasses with legumes, and trees on 34 million acres will provide wildlife habitat that was nonexistent when the land was in crop production. Wildlife habitat was also expanded with the addition of wetland and farmed wetland eligibility criteria which has allowed for the development of waterfowl habitat.

Swampbuster

WETLAND DETERMINATIONS

Question. When will the wetland determination process be completed?

Answer. SCS is making good progress in completing the wetland determinations. The agency has a goal of completing wetland determinations by the end of 1991. About 750,000 determinations have been made as of February 1, 1990, which represent about 30–35 percent of the total.

Question. Please indicate, by State, the following to date: the number of commenced determination requests received and the number of acres of wetlands covered by these requests; the number of commenced determinations denied; the number of these denials that have been appealed; the number of appeals that have been successful, and the number that have been unsuccessful; and the total number and acres of wetlands that have received a commenced determination.

Please also indicate, by State, the following to date: the number of reported swampbuster violations; the number of these violations that have been appealed; the number of these appeals that have been successful; and for those violations that have not been appealed or were unsuccessfully appealed, the number of wetland acres affected, and the dollar value of the Federal farm program benefits lost.

Answer. Current data on all of the requested information is not available. However, we submit the following data.

As of January 1, 1990, 127 swampbuster cases had been determined to be in violation, some of which are still under appeal. Benefits lost on these 127 cases total $1.818 million on 760 acres of converted wetland.

State	Swampbuster violations	Acres of converted wetland	Program benefits lost
Illinois	[1] 8	107.8	$21,065
Indiana	[1] 8	14.6	84,074
Iowa	[1] 4	62.0	230,000
Kansas	[1] 3	27.0	5,869
Minnesota	[1] 52	280.0	480,000
Missouri	[1] 2	10.2	69,000
Nebraska	[1] 5	18.5	156,544
New York	[1] 2	58.1	20,363
North Dakota	[1] 11	98.2	217,300
Ohio	[1] 2	2.6	72,559
South Dakota	[1] 15	25.0	8,217
Wisconsin	[1] 15	56.2	453,611
Total	[1] 127	760.2	1,818,602

[1] All of the above data is subject to change due to the fact that many producers are still appealing their determination to ASCS or SCS.

FmHA and Conservation Easements

Question 1. An assessment of the number of delinquent borrowers who asked to be considered for a conservation easement write-down under FmHA regulations issued September 14, 1988, and how many of these borrowers subsequently used the conservation easement opportunity to prevent foreclosure?

Answer. FmHA notified all delinquent farm borrowers of the Conservation Easement provision to exchange debt for enrollment of farm land in this program. The only record of these transaction types indicates that one borrower nationwide has utilized this program. The major reason for such a small number is that many borrowers have elected a "debt write-down" in lieu of exchanging debt for a conservation easement on the farm.

Question 2. The number and acreage of conservation easements on FmHA inventory property that have been (a) proposed by, and (b) granted to Federal, State, and private conservation organization/agencies, including the date granted or the date the easement was submitted, if pending.

Answer. As of March 29, 1990, FmHA had granted conservation easements on approximately 600 farms. FmHA presently does not track the acreages involved in these easements nor do we track the number of pending requests and the acreages.

Question 3. The number and acreage of properties expected to come into FmHA inventory over the next 5 years as borrowers exercise their leaseback/buyback rights as owners under the Agricultural Credit Act of 1987.

Answer. Following is a table with the estimated number and acres of farm properties that FmHA projects it will acquire in the next 5 fiscal years.

Fiscal year	Number	Acres
1990	12,715	3,738,210
1991	9,690	2,848,860
1992	4,593	1,350,342
1993	2,812	826,728
1994	2,817	828,198

Question 4. The number and acreage of property transfers (a) denied, (b) approved and (c) pending to Federal and State conservation agencies according to Section 616 of the Agricultural Credit Act of 1987 by property classification (i.e., suitable, surplus or nonprogram).

Answer.

	Number denied		Acres denied	
	Suitable	Surplus	Suitable	Surplus
Federal	5	0	552	0
State	3	0	6,011	0

	Number approved		Acres approved	
	Suitable	Surplus	Suitable	Surplus
Federal	1	1	42	430
State	4	10	1,897	2,490

	Number pending		Acres pending	
	Suitable	Surplus	Suitable	Surplus
Federal	13	17	2,268	6,605
State	13	14	2,494	5,221

FARMLAND PROTECTION POLICY ACT

Question. Could you look into this matter and inform the committee on the status of these regulations and their likely completion date?

Answer. The final Farmland Protection Policy Act (FPPA) rules were signed by Secretary Yeutter on January 30, 1990. The rules were sent to OMB on March 2, 1990, and are currently under review.

Question. Could you please inform the committee on the projected completion date of the 1989 report?

Answer. The FPPA progress report for fiscal year 1989 has been completed and was sent to the Chairman.

MEETINGS WITH ENVIRONMENTAL GROUPS

Secretary Yeutter, you testified during the hearing on February 7, 1990, that a substantial number of people participated in your preparation for the 1990 farm bill, in fact, that you received "a huge input" from the private sector. I have recently been made aware that a number of environment groups, including the American Farmland Trust, The National Audubon Society, the Center for Resource Econom-

ics, the Soil and Water Conservation Society and others, have sought to meet with you and were told that a meeting would not be possible until after you have your Assistant Secretary for Natural Resources and Environment in place.

These particular groups requesting to meet with you are working diligently and responsibly to develop serious proposals on the environment and agriculture for the 1990 farm bill. 0pen communication between them and the Secretary of Agriculture is needed if we are to find appropriate and successful solutions to the environmental problems facing agriculture.

Question. Could you tell the committee which conservation/environment groups you did meet with? Also, do you intend to meet with the other groups mentioned above at some point in the near future?

Answer. I have not met with any of the above-mentioned groups. I do believe that communication is important and look forward to establishing a dialog with any and all of the responsible environmental groups in the future. I would hope that we can work out practical and effective means to produce the Nation's needed food and fiber while protecting our environment.

QUESTIONS SUBMITTED BY SENATOR HARKIN AND RESPONSES THERETO

Question. Is it not true that reductions in farm program spending that cause reductions in support levels have a very significant impact on the incomes of farm families? For example, if the price of corn is below the target price, does not a reduction in the target price of corn translate into a reduction in income for a farm depending on corn sales for income (assuming constant or rising production costs and constant acreage limitations)?

Question. What analysis has USDA performed regarding the impact of the administration's farm bill and budget proposals on farm income in the aggregate and, for example, with respect to a typical Iowa farm growing corn and soybeans?

Question. If the proposed budget savings of $1.5 billion are reflected in lower commodity target and support prices, what are the projected effects on farm income, again in the aggregate and for typical farms that benefit from the commodity programs?

Answer. If the corn market price is less than the target price, a reduction in the target price with no reduction in the ARP level would translate into a smaller income for a farmer dependent on corn sales for income. However, a reduction in the target price along with a reduction in the ARP level could translate into an equal or higher income. Likewise, an increase in the target price along with an increase in the ARP could translate in an equal or lower income.

Net farm income for crop producers is expected to be slightly lower in the short-term under the administration proposal for the 1990 farm bill, compared with the budget baseline. But, the United States would be more competitive in world grain, oilseed, and cotton markets and farmers, no longer constrained by Government programs, would be able to plant crops that yield the highest returns from the market. In addition, new rotations would reduce production costs over time. Therefore, net farm income in the longer-term likely would be higher under the administration proposal.

Under the administration proposal, the income of a typical farm, for example an Iowa corn/soybean farm, would depend on what happens to prices, and on the proportions of crops grown and livestock produced. Suppose soybean net returns per acre are $30 more than corn net returns, as has been the case in some recent years. If the producer had no livestock and 200 acres each of corn and soybeans, the producer could gain $1,500 by shifting 50 acres from corn to soybeans, if soybean prices were unchanged. Even if soybean prices dropped about 20 cents a bushel, the producer would still break even on the switch. Under the flexibility proposal crops other than corn and soybeans may be grown on the farm with no loss of corn payments and base. And, these alternative crops along with corn and soybeans may be grown in any proportion. Moreover, the producer could plant corn on set-aside acres and earn additional income. With this new-found freedom many opportunities are created for farmers to increase incomes.

If budget savings of $1.5 billion for FY 1991 were achieved by cutting target prices, gross farm income would be reduced in the short term by nearly the full amount of the reduction, if everything else were the same—which never happens. Over the longer term there would be little effect on farm income. In fact, even in the short-term the relationship between farm income and target price changes is weak. Under the 1985 Act, target prices have dropped, but income has steadily in-

creased. Obviously, the effect of this reduction on a particular farm depends on many factors, including the number of program crops grown on the farm and the base acres of each, acres of nonprogram crops, whether the farm has a livestock enterprise, and so forth.

Aggregate farm income would fall if these budget savings were obtained by increasing loan rates or ARP levels. Raising loan rates or ARP levels would provide an incentive for our competitors to increase production and thereby take more of our export markets. This would eventually mean even lower income for U.S. farmers.

Question. You stated that cash farm income is at record levels. Yet the information I have from USDA publications and from the Economic Report of the President shows that net cash farm income and net farm income for recent years are significantly below record levels when adjusted for inflation to constant 1982 dollars. Would you please provide for the record, for all years for which the information is available, the levels of net cash farm income and net farm income, both in current dollars and adjusted for inflation to constant 1982 dollars?

Answer. Our records on farm income start with 1910. The attached table contains estimates of net cash farm income and net farm income in both current and real (1982) dollars since 1910. Net farm income adjusted for inflation is estimated at $38.8 billion for 1989, the highest level since the mid-1970's. The 1989 estimate is about two-thirds higher than the average of 1980–85, a period of relatively high loan rates and declining exports. Real net farm income per farm for 1989 was the third highest income year on record, exceeded only by 1973 and 1974.

	NET CASH FARM INCOME			NET FARM INCOME		
	CURRENT $ (BIL.)	1982 $ (BIL.)	PER FARM 1982 $	CURRENT $ (BIL.)	1982 $ (BIL.)	PER FARM 1982 $
1910	3.0	35.8	5594	4.2	49.7	7761
1911	2.8	33.6	5232	3.4	40.6	6321
1912	3.0	34.6	5381	4.5	51.2	7966
1913	3.1	36.4	5654	3.7	43.5	6752
1914	2.9	32.7	5076	4.2	47.5	7370
1915	3.2	34.3	5319	4.3	46.8	7249
1916	4.0	38.4	5949	4.6	44.4	6865
1917	5.9	46.8	7228	8.3	65.9	10174
1918	7.5	55.3	8517	8.9	65.8	10146
1919	7.9	49.4	7599	9.1	56.7	8721
1920	5.7	30.3	4651	7.8	41.2	6328
1921	3.1	19.9	3062	3.4	21.7	3339
1922	3.5	24.4	3750	4.3	30.2	4640
1923	4.1	27.4	4218	5.1	34.0	5239
1924	4.4	29.7	4588	4.9	33.0	5097
1925	5.2	34.5	5337	6.7	44.9	6938
1926	4.7	31.9	4935	5.9	40.1	6208
1927	4.8	33.2	5147	5.7	39.3	6086
1928	4.8	32.8	5071	6.0	41.0	6332
1929	5.2	35.8	5501	6.2	42.1	6471
1930	3.7	25.8	3948	4.3	30.0	4582
1931	2.2	17.1	2584	3.3	25.7	3892
1932	1.4	12.3	1847	2.0	17.7	2642
1933	2.1	19.1	2834	2.6	22.8	3384
1934	3.1	25.7	3798	2.9	24.0	3536
1935	3.7	29.4	4309	5.3	42.2	6197
1936	4.2	33.5	4974	4.3	34.5	5114
1937	4.3	32.7	4923	6.0	45.8	6908
1938	3.5	27.2	4169	4.4	33.8	5179
1939	3.6	28.1	4364	4.4	34.8	5396
1940	3.3	25.5	4022	4.5	34.5	5429
1941	5.0	35.9	5700	6.5	47.0	7473
1942	7.7	52.0	8391	9.9	67.0	10807
1943	10.2	67.3	11050	11.7	77.7	12764
1944	10.5	68.8	11465	11.7	76.5	12744
1945	11.3	72.0	12062	12.3	78.4	13142
1946	13.1	67.5	11395	15.1	77.7	13107
1947	15.3	69.2	11792	15.4	69.5	11834
1948	14.6	61.9	10661	17.7	74.8	12898
1949	13.1	55.7	9742	12.8	54.4	9504
1950	12.7	53.1	9408	13.6	57.1	10111
1951	14.8	59.0	10863	15.9	63.5	11695
1952	14.2	55.7	10713	15.0	58.7	11287
1953	14.1	54.4	10923	13.0	50.1	10055
1954	12.8	48.7	10144	12.4	47.0	9805
1955	12.2	44.9	9638	11.3	41.6	8930
1956	12.9	45.9	10170	11.3	40.0	8872
1957	11.9	40.9	9353	11.1	38.1	8713
1958	13.8	46.5	10977	13.2	44.3	10474
1959	12.5	41.1	10036	10.7	35.2	8601
1960	12.8	41.4	10453	11.2	36.3	9155
1961	13.7	43.9	11480	12.0	38.3	10019
1962	13.7	42.9	11632	12.1	37.8	10243

1963	13.6	42.0	11751	11.8	36.3	10170
1964	14.0	42.6	12309	10.5	31.9	9225
1965	14.7	43.5	12959	12.9	38.2	11371
1966	17.1	48.9	15001	14.0	39.9	12246
1967	15.1	42.1	13302	12.3	34.4	10870
1968	15.9	42.2	13733	12.3	32.7	10643
1969	18.1	45.5	15159	14.3	35.9	11971
1970	18.4	43.8	14856	14.4	34.2	11599
1971	18.0	40.5	13970	15.0	33.8	11651
1972	23.2	49.9	17445	19.5	41.8	14630
1973	36.0	72.7	25762	34.4	69.4	24586
1974	34.8	64.4	23057	27.3	50.5	18066
1975	29.6	49.9	19800	25.5	43.1	17089
1976	29.9	47.4	18977	20.2	32.0	12805
1977	27.9	41.5	16880	19.9	29.5	12028
1978	33.1	45.8	18820	25.2	34.9	14328
1979	33.4	42.5	17437	27.4	34.9	14304
1980	34.2	39.9	16355	16.1	18.8	7699
1981	32.8	34.9	14301	26.9	28.6	11728
1982	37.8	37.8	15704	23.5	23.5	9763
1983	36.9	35.5	14929	12.7	12.2	5138
1984	38.7	35.9	15396	32.2	29.9	12810
1985	46.7	42.1	18365	32.4	29.2	12741
1986	51.8	45.5	20213	38.0	33.4	14828
1987	54.5	46.4	20977	43.6	37.1	16782
1988	57.2	47.2	21464	42.7	35.2	16023
1989	53.0	42.0	19311	49.0	38.8	17854

Question. Given the international outlook for soybean prices during the next 2 years, why would we expect U.S. soybean acreage to increase even with increased program flexibility?

Question. Do we need a stronger oilseeds program than is provided by the flexibility proposal?

Answer. Market prices for soybeans have been high in relation to corn prices in recent years. However, current programs penalize producers who grow soybeans on corn base acres. Therefore, current programs have allowed the imbalance in market returns for the two crops to be sustained. With greater program flexibility, farmers would substitute soybeans for corn, based on current relative returns. Ultimately, the amount of soybeans produced under the flexibility proposal would depend on how farmers view returns from soybeans in relation to those from other crops. This will vary from year to year, depending on how market demand unfolds.

The administration proposal allows crop producers to grow crops that get the greatest return from the marketplace, and this includes soybean producers. Only 3 percent of U.S. soybeans are produced on farms where only soybeans are grown. These soybean-only producers would receive price protection based on a loan rate no lower than $4.50 a bushel, the same as current law. The flexibility proposal should lower the soybean-to-corn price ratio to a level consistent with net returns based on market prices. This means that South American soybean growers would not plant more and more soybeans because of a soybean-to-corn price ratio kept high by the U.S. farm program. Consequently, the United States would increase its share of world trade in soybeans and soybean products.

Question. How will the administration's planting flexibility proposal affect farmers with small or no base acres? For example, the proposed loan rate for soybeans of $4.50 is below the 1990 level of $4.53 a bushel, and provides little assurance to a farmer who does not have the protection of program crop deficiency payments.

Answer. Because past programs have created a disincentive to plant soybeans and other oilseeds in favor of program crops such as corn, it is likely the USDA's flexibility proposal would lead to an increase in soybean plantings. Soybean and other oilseed prices would fall in the short-term in response to larger supplies domestically. However, competing countries will respond to these lower prices over time by either shifting acreage away from soybeans or curtailing expansion in soybean production. These production responses in competing countries will cause U.S. soybean and other oilseed prices to strengthen over the longer term. The final outcome will be a more competitive and efficient U.S. oilseed industry.

The producer who only has an oilseed base and continues to grow soybeans would, therefore, have lower market receipts in the near term and higher receipts over time than otherwise. It should emphasized that few producers grow only soybeans and can only grow soybeans. More likely, the producer has program crop base acreage and would be able to grow these or other crops on oilseed acres, if soybean price prospects weakened. Moreover, under the USDA proposal, the producer would not lose deficiency payments when increasing the plantings of other program crops onto oilseed acres.

Finally, USDA has proposed that the current price support system for soybeans be continued, including the $4.50 per bushel minimum loan rate. Therefore, the incomes of soybean producers would continue to be protected.

Question. Without the option of harvesting soil building crops, will farmers have enough incentive to plant such crops on permitted acres under the administration proposal?

Answer. The administration's proposal provides the flexibility for producers to plant and not harvest a soil building crop on their program permitted acreage, and not lose program base or program payments. These crops could continue to be hayed or grazed as determined by current rules. In making this choice, producers will consider the soil building advantage as well as the additional flexibility. If the deficiency payments plus soil-building benefits exceed the net land returns from planting a program crop, producers will have an incentive to use our flexibility provisions to plant soil building crops. This will surely be the case for some farmers but we do not have quantitative estimates of how many.

Question. Will a farm's program yield be protected as rotations are more widely adopted (while rotations are generally regarded as yield enhancing, rotating program crops onto less productive land may cause yield losses)?

Answer. We propose that program yields be frozen at the 1990 levels. Therefore, crop rotations as a part of a sustainable agriculture rotation that could possibly lower the actual yield of a program crop in some year, would not affect a producer's payments in that or future years.

Question. What is the administration's position on increasing oat and barley supports to bring them in line with other feed grains?

Answer. Realigning target prices on a piecemeal basis is fraught with problems because of possible commodity, budget, and market effects. Arbitrarily increasing target prices for specific commodities is likely to be one-sided, not market oriented, and costly. Furthermore, arbitrary adjustments are likely to aggravate supply and demand imbalances among other crops and the entire exercise is likely to be counterproductive.

Our planting flexibility proposal would allow a producer to collect deficiency payments on permitted acres for each program crop irrespective of the program crop or "oilseed" planted. A producer with oats, wheat, and corn base could plant all of the permitted acreages to oats, market the oats and receive an oats market return, and continue to receive oats, wheat, and corn payments as if the permitted acreages had been planted to oats, wheat, and corn. It doesn't matter what the relative target prices are to one another; the producer will plant whatever crop(s) the producer foresees will earn the highest return per acre or that best fits the farm operation.

Planting flexibility, with payments tied to historical bases, therefore, is the true answer to any target price and/or supply and demand imbalances that may exist among commodities.

Question. Market prices for the program crops have been depressed the last several years due to the use of commodity certificates and other actions taken to make our commodities more competitive internationally. Since loan rates are based on the last 5 years of market prices, will loan rates not be depressed accordingly under the administration's proposal?

Answer. One of the "actions taken to make our commodities more competitive internationally" had been to gradually reduce price support rates over the life of the Food Security Act of 1985 (the 1985 Act). Under authorities granted in the 1985 Act, price support rates could be, and were, reduced to levels at which market forces—not forfeitures of loan grain—could begin to determine prices. As that has occurred, price support rates have ceased to be effective price floors under which foreign competitors could outbid U.S. suppliers.

This policy has helped us to increase the value of our agricultural exports, reduce price-depressing stocks, boost farm income, and gradually reduce CCC outlays. Inhibiting this progress by raising price support rates would be counterproductive.

Additionally, since price support rates are based on the simple average of past market prices, the effects of recent drought-enhanced prices are reflected in future price support rates. Thus, if "Findley" provision adjustments in the price support rates are reduced or eliminated, we could find ourselves in a position where these rates are once again stifling exports and encouraging our competitors to expand production and undersell us in world markets. The Findley price support rate adjustment provision of the 1949 Act, therefore, should be retained in the 1990 farm bill.

QUESTIONS SUBMITTED BY SENATOR CONRAD AND RESPONSES THERETO

Question. Will you provide the committee with an analysis of the administration's program proposals which meets the administration's budget goals?

Answer. Although our proposal does not identify specifically what we believe could be done to achieve the necessary budget savings, it does provide a good framework whereby we can work closely with the Congress to determine the best way to achieve the budget objectives. As you may be aware, Chapter V of the President's budget summarizes some of the approaches we have in mind that could be used to help achieve the administration's budget proposal. For example, target prices could be reduced, the portion of the crop acreage base used to determine deficiency payments could be restricted, or the payment limitation could be tightened. Reaching the goal of a balanced budget is a joint responsibility between the Congress and the Executive. We prefer to work with the Congress to find the way to this goal within a sound policy framework.

Question. Net farm income in the 1980's has hit a century low in real dollars according to data collected by the USDA. In 1979, real net farm income reached $39 billion (1982 dollars). Is this a post-World War II record or has net farm income exceeded this level in other years?

Answer. Real net farm income was the highest during and right after World War II, averaging $76 billion (1982 dollars) per year over the 1943–48 period. Since that period, real net farm income was the highest in 1973 at $69.4 billion. Real net farm income in 1989 was $38.8 billion compared with $34.9 billion in 1979. On a per farm

basis, real net farm income for 1989 was the third highest on record, exceeded only by 1973 and 1974. Real net farm income for 1989 is about two-thirds higher than the average of 1980–85, a period of relatively high loan rates and declining exports.

Question. During the hearing, a great deal of discussion took place on the importance of keeping U.S. prices low to increase demand. According to standard economic theory, is there ever a point at which further reductions in unit prices reduce total revenue? Has there ever been a year in the 1980's in which the volume of a farm commodity exported increased while the value of exports of that farm commodity decreased?

Answer. Lower prices increase demand in two ways. The first is greater consumption of the commodity in the short-run, a year or less. The second, longer term, is through greater exports as competitors produce less of the commodity and, in the case of feed grains, livestock herds are expanded. Total revenue increases when the percentage gain in total use of the commodity is more than the percentage decline in price. Obviously, at some point further price reductions will cause a decline in total revenue, because the percentage gain in total use of the commodity becomes successively smaller each time price is lowered by a given percentage.

A price reduction sustained over time almost certainly would cause total revenue to rise, especially for export commodities. However, it is not uncommon for total revenue to fall in the short-run as price is lowered. Compared with the preceding fiscal year, export value declined as export volume increased for wheat in 1982 and 1987; rice in 1984, 1986 and 1987; feed grains in 1987; cotton in 1982 and 1989; and tobacco in 1987.

Question. Would you please provide the committee with an estimate of the effects of the 1989 drought on fiscal year 1990 CCC outlays?

Answer. In the case of the 1989 drought, outlay reductions were calculated in July 1989 for purposes of developing the Disaster Assistance Act of 1989. The reductions were estimated by comparing FY 1990 CCC outlay estimates prepared in November 1988 for inclusion in the President's FY 1990 budget with estimates done in July 1989. Obviously, the November 1988 analysis predated the drought.

The July analysis indicated that total FY 1990 CCC outlays would be down by $1,520 million as compared to the total estimated in the President's FY 1990 budget. However, the Department had other programs which were addressing disaster related production losses, and outlays were projected to increase in those programs. Outlays associated with the Federal Crop Insurance Program were projected to increase by about $500 million. Outlays for FmHA loan programs were increased by about $150 million as a result of lower repayments due to the drought. Thus, the net reduction in Government spending as a result of the drought was estimated at $870 million.

The President's FY 1991 budget includes further revisions of estimated FY 1990 CCC outlays based on November 1989 information. Based on that information the President's budget includes an FY 1990 outlay estimate of $8.2 billion, a further reduction of $1.9 billion below the July 1989 estimate. However, a review of the data indicates that this change in outlays occurs primarily in the corn program. The estimate of corn production has actually increased since last July. It appears that the reduction in estimated corn outlays since last July results not from the drought but from significant increases in exports and prices.

Regarding disaster payments for the 1989 crops, approximately $900 million was originally projected for crop disaster payments in FY 1990. As of April 16, 1990, crop disaster payments had totaled $1.325 billion. Since applications for payments had to be in by April 2, it is likely that almost all of the crop disaster payments have been made. The crop and tree damage caused by last winter's freeze in Texas and Florida has increased the expected cost of the disaster program beyond what was initially expected.

In addition to crop disaster benefits, payments under the ongoing livestock assistance program to cover feed losses from the 1989 drought amounted to over $100 million through the middle of April 1990. Federal crop insurance outlays for the 1989 crop are still expected to total about $500 million over the FY 1990 budget estimates. It is projected in the FY 1991 President's budget that FCIC will need to borrow $150 million from CCC in FY 1990 to help pay indemnities stemming from the 1989 disasters.

Question. In the hearing you stated that you did not agree with the analysis of FAPRI concerning the costs of the 1985 farm bill with target prices frozen. Will you provide the committee with your analysis of continuing the 1985 program at frozen target prices?

Answer. With target prices fixed at 1990 levels, farm programs would continue to exert a significant influence on producers' production decisions in the 1990's. Fixed

target prices would keep program participation high (80–90 percent) for most program crops.

Compared to a declining target price scenario, more land would remain committed to the production of program crops with fixed target prices. Acreage planted to program crops averages around 255 million acres per year. Supply management would continue to require acreage reduction programs rather than being accomplished by market signals. Land retired from production under annual acreage reduction programs would average 19–21 million acres per year.

Compared to a declining target price scenario, frozen target prices would likely maintain larger planted acreage for program crops. Since the increased acreage would tend to be less productive land, average yields would be lower than historical trends would indicate.

With moderate price movements projected and generally favorable macroeconomic conditions, demands for crop commodities are expected to be healthy. Growth rates in exports for most crops will likely exceed domestic demand gains. Exports of major crops would increase around 3.5 percent per year. However, credit availability for developing countries will be important for achieving the export increases.

World trade is projected to rise significantly during the 1990's for wheat and soybeans, with more moderate increases expected for rice, coarse grains, and soybean meal, and limited growth for cotton trade.

Total production expenses increase about 8 percent from now until the mid 1990's. There would be minimal increases in the cost of farm-origin inputs as feed costs and livestock prices are relatively stable. Cost increases for nonfarm origin inputs would be larger.

If the 1985 farm bill were extended with frozen target prices, net returns above variable cost would likely average around $150 per acre for corn, $92 per acre for wheat, $65 per acre for soybeans, $135 per acre for cotton, and $374 per acre for rice.

Government payments would likely average $12 billion per year.

This analysis assumes a generally favorable macroeconomic scenario. The domestic economy would be moderately healthy through the 1990's with real GNP rising about 2.8 percent annually. The inflation rate, as measured by the Consumer Price Index, is assumed to be in the 3.8 to 4.7 percent range. Unemployment rates fall slowly over the period, while nominal interest rates decline moderately.

Question. In the hearing, you argued that this program is not decoupling. Is it true that payments will not depend on what a farmer produces in the future, but what he produced in the past; i.e., his base?

Answer. No, because if a farmer plants program crops on ACR acreage, he loses payments. And if he plants nonprogram crops on base acres, he loses both payments and base. Our proposal does permit farmers to alter the mix of program crops and oilseeds on base acreage without losing program payments or reducing the historical program bases associated with the farm. The combination of crops a farmer elects to plant will be based on market signals. A decoupling plan would go much further in separating Government payments from a producer's production decision than what we have proposed.

The purpose of decoupling plans is to break the link between plantings and prices and Government payments. Full decoupling would establish a predetermined amount of payments due farmers. Payments would not depend on market prices or the crops farmers plant.

Here is how decoupling differs from administration's flexible planting NCA proposal and how it differs from present farm programs:

1. Under decoupling, farmers can plant and harvest any crop they choose and payments are unaffected. Under the flexible NCA proposal, farmers may plant only NCA crops in any proportion and the sum of acreages planted to program crops plus oilseeds cannot exceed farm's NCA. Under present programs, farmers may plant for harvest on their permitted acres only that crop for which they have a base.

2. Under decoupling, farmers can plant nonprogram crops—such as watermelons or dry edible beans or potatoes without losing payments. Under flexible NCA, farmers would lose both deficiency payments and base for the acres they planted to those crops on their NCA. Under present programs, they would be out of compliance and would lose deficiency payments, base, and crop loan protection.

3. Under decoupling, farmers' payments are set in advance and are uncoupled from market prices. Under flexible NCA, farmers' deficiency payments vary with the level of average market prices, the same as under present programs.

4. Under decoupling, there is no authority for ARP's. Under flexible NCA, authority for ARP's would continue and farmers may plant their ARP land to the crop for which the ARP is in effect, or they may plant an industrial or experimental

crop, by giving up deficiency payments on an equal amount of acreage. Under present programs, farmers may not plant crops for harvest on their ARP acres.

5. Under decoupling, price support loans would be offered to producers. Under flexible NCA, farmers qualify for loans on all the program loan crops they produce, no matter which ones they plant as long as they plant within their NCA. Under present programs, farmers do not qualify for price support loans, or for deficiency payments, if they exceed their permitted acres for that crop.

Question. Is it possible under your proposal for a farmer to plant alfalfa and spend his time fishing and still receive his payments?

Answer. The Department of Agriculture's flexibility proposal would allow producers to increase or decrease acreage of Normal Crop Acreage crops and still be eligible for payments under certain conditions. However, if producers plant on land required to be idled, they lose some payments. If they plant nonprogram crops or conserving crops for harvest, they lose both payments and base history. They can however, plant a soil building crop, such as alfalfa, without losing program base or program payments, if they do not harvest the crop. Thus, if as part of a sustainable agriculture practice a farmer chooses to plant but not harvest alfalfa on his NCA, he would still be eligible for payments as if that acreage had been planted to a program crop.

Similarly, current 0/92 legislation allows farmers to plant nothing and, as long as they comply with the conservation use requirements of the annual wheat and feed grain programs, they, too, may go fishing and still receive payments.

Question. USDA's proposal would increase the production of oilseeds, lower oilseed prices, and harm those farmers who have low program bases and depend on oilseeds production for their incomes. What is USDA's estimate of the production of oilseeds under this program and its effect on prices?

Answer. Because past programs have created a disincentive to plant soybeans and other oilseeds in favor of program crops such as corn, it is likely the USDA's flexibility proposal would lead to a marginal increase in soybean plantings, depending, of course, on what happens to market prices over the next few years. If this increase occurs, soybean and other oilseed prices may fall in the short-term in response to larger supplies domestically. However, competing countries will respond to these lower prices over time by either shifting acreage away from soybeans or curtailing expansion in soybean production. These production responses in competing countries will cause U.S. soybean and other oilseed prices to strengthen in the long term. The final outcome will be a more competitive and efficient U.S. oilseed industry.

The producer who only has oilseed base and continues to grow soybeans may have lower market receipts in the near term but higher receipts over time than otherwise. It should be emphasized that few producers grow only soybeans and can only grow soybeans. More likely, the producer has program crop base acreage and would be able to grow these or other crops on oilseed acreage, if soybean price prospects weakened. Moreover, under the USDA proposal, the producer would not lose deficiency payments when increasing the plantings of program crops onto oilseed base.

Finally, USDA has proposed that the current price support system for soybeans be continued, including the $4.50 per bushel minimum price support rate. Therefore, the incomes of soybean producers would continue to be protected.

Question. How would you provide for adding new crops in counties where they are not now grown?

Answer. In anticipation of this occurring, the following events have begun:

1. Requirements have been written to develop software to retroactively reconstitute nonprogram crop acreages (including oilseeds) for past years for those farms that have been reconstituted during the base period.

2. After nonprogram crop records (including oilseeds) for past years have been reconstituted, software will be provided to county ASCS offices that will allow the loading and updating of past years' history acreages including reported, failed, planted, and prevented planted.

3. County offices will begin to accept acreages for applicable nonprogram crops (including oilseeds) for past years without charging late file fees for any farms for which an acreage report was not filed. Each year farmers are encouraged to file an acreage report; however, some have not.

4. Software will be provided to calculate crop acreage bases for the nonprogram crops including oilseeds, using records updated or loaded through the data loan process.

With the information provided from the above items, the process could be tailored to meet the needs of each State and would increase producer flexibility.

Question. It will be extremely difficult to find the savings being asked of the Agriculture Committee for the commodity programs without a great deal of cooperation

from the Department of Agriculture. Will you provide the committee with an estimate of the costs of your suggested program with target prices adjusted for increases in the unit costs of production; i.e., inflation minus productivity gains?

Answer. Adjusting target prices for 1991–1995 increases in the unit costs of production adjusted for productivity, would substantially add to the costs of the administration's suggested program. Preliminary analysis indicates that adjusting target prices as suggested would increase the estimated cost of the current services baseline about $6.4 billion over the life of the 1990 farm bill (fiscal years 1991–1995). The increase comes from higher deficiency payments. Achieving savings for commodity programs with indexed target prices would require significant reductions in other program provisions, such as payment yields, payment acres or severe payment targeting.

QUESTIONS SUBMITTED BY SENATOR KERREY AND RESPONSES THERETO

Question (1). Back on September 13, USDA announced that wheat producers would be allowed to grow wheat on 105 percent of their wheat base rather than just 95 percent as had been announced earlier. Producers who accepted this option had to agree to forgo target price protection on each additional planted acre as well as to accept reduced target price coverage on their permitted acreage.

The effect of the decision was twofold: target prices were cut below the level specified in the farm bill and planted acreage was increased.

Since that decision was announced, new-crop wheat prices (July 1990) have dropped 20 cents per bushel, from $3.59 per bushel to yesterday's closing price of $3.39.

My question to you is: what specific authority did the Secretary use to change the wheat program? What specific provision in current law gives the Secretary the authority, after the "final" wheat program is announced, to offer producers the option to increase planted acreage in exchange for accepting a reduction in target price coverage?

Answer. Let me start by answering your question regarding the specific authority USDA had to modify the initially announced 1990 Wheat Program. Section 107D(F)(7)(B) of the Agricultural Act of 1949 authorizes the Secretary, by mutual agreement with producers on a farm, to terminate or modify a contract if the Secretary determines such action is necessary because of an emergency created by drought or other disaster or to prevent or alleviate a shortage in the supply of agricultural commodities.

Sufficient changes had occurred in the United States and foreign supply and demand outlook for wheat since the U.S. wheat program was first announced to warrant a change in the 1990 Wheat Program. It was determined that an increase in U.S. wheat plantings was necessary to alleviate a short supply of wheat. The modified wheat option is at the producer's option and the reduction in payment acreage is a condition of utilizing this option.

The target price was not reduced below the level specified in the Food Security Act of 1985 for the 1990 wheat crop. It remains at $4.00 per bushel.

This change in the 1990 Wheat Program provided producers the opportunity to modify their original contracts to allow them to plant more than 95 percent of a farm's wheat base. For each acre producers plant above 95 percent of the wheat base, the acreage used in determining the producer's deficiency payment will decrease by 1 acre. It was announced that producers may not plant more than 105 percent of their wheat base. The minimum acreage for payment will be 85 percent of the farm's wheat base if the producer plants the maximum acreage of 105 percent of the base.

QUESTIONS SUBMITTED BY SENATOR LUGAR AND RESPONSES THERETO

Question. Due to large decreases in commodities provided through the TEFAP program in recent years, why was $50 million requested for TEFAP administrative costs?

Answer. The amount of surplus commodities being made available to States has been reduced due to changes in price support programs and market conditions. However, the Department considers this administrative funding authority to be necessary for two reasons.

First, if the Department is to continue to make commodities available for distribution to households, these funds will help maintain the necessary infrastructure.

Second, under the Hunger Prevention Act of 1988, TEFAP administrative funds can now be used not only for USDA commodities being made available for soup kitchens that prepare meals for the homeless but also for non-USDA commodities that are being provided to the needy by TEFAP organizations, soup kitchens and food banks.

Question. Why require all Social Security numbers in CSFP and FDPIR if USDA does not want to collect all of them in food stamps?

Answer. The Department has and will continue to require the collection of Social Security numbers from virtually all food stamp applicants.

The Department supports the collection of Social Security numbers from adult applicants and participants in CSFP and FDPIR as part of our efforts to eliminate dual participation in Federal assistance programs. Social Security numbers will provide the States and USDA with the means to detect households that are participating in both CSFP and WIC and households that are participating in both FDPIR and the Food Stamp Program. Dual participation in these programs is prohibited by law.

Question. Why change the CSFP administrative formula?

Answer. Administrative funding currently may not exceed 15 percent of the sum of (1) the annual appropriation (base administrative funds) and (2) the value of donated commodities distributed by State agencies to participants (administrative reimbursement funds). In prior fiscal years, a large part of State administrative funding was earned based on the distribution of the donated foods, primarily nonfat dry milk and cheese. In recent years, Commodity Supplemental Food Program (CSFP) State agencies received the equivalent of approximately 20 percent of the annual CSFP appropriation for administrative funds through a combination of the two administrative funding sources. However, due to the recent reduction in dairy surpluses these foods are either no longer available for donation or are in limited supply. These unstable dairy supplies make it extremely difficult for program operators in planning their budgets early in the year.

In order to stabilize funding for program operations, the Department proposes a legislative change that would eliminate administrative reimbursement funding in lieu of a greater allocation of each year's appropriation to base administrative grants. Funding of CSFP administration would equal but not exceed 20 percent of the appropriation. This change would facilitate planning because the full amount of administrative support would be known early in the program cycle. It is also a budget neutral proposal and, as indicated above, would not alter the overall level of program resources used for administrative purposes.

Question. Why change to calendar year funding?

Answer. In practice, our proposal would enact appropriations in the budget year for the first quarter of the following fiscal year. These funds would automatically become available on October 1, thus ensuring an adequate, uninterrupted flow of benefit payments. Delays and uncertainties inherent in the passage of short-term continuing resolutions with special provisions for the Food Stamp Program can be avoided.

Question. Explain the $12.50 cap on E&T?

Answer. The 1990 farm bill proposes to limit 50 percent Federal funding for administrative costs of the Employment and Training (E&T) Program that exceed the $75 million per fiscal year in 100 percent funding. The cap would be $12.50 per participant, per month. In other words, once a State agency expended its share of the $75 million, it would still get 50 percent Federal funding of the rest of its administrative costs, up to an amount representing $12.50 for each E&T participant in each month.

The E&T cap proposal is necessary in order to control Federal spending in this area, which is the only aspect of E&T funding that is not controlled. It is also necessary to prevent the use of Federal E&T funds to finance programs that in the past were State financed. Finally, the proposal will produce an estimated $20 million in annual savings.

Question. How would an open-ended authorization affect the ratable reduction now required when appropriations run low?

Answer. Section 18(b) requires the Secretary to limit the value of food stamp allotments to the appropriation for the fiscal year, and to reduce the value of allotments when it is determined that State requirements will exceed the authorization. Open-ended authorizations would obviate the requirement to direct States to reduce the value of allotments, but the Secretary would still be bound by the Anti-Deficiency Act to limit obligations to the amount appropriated. States would still be directed

to reduce or suspend benefits in order to limit the value of coupons issued to the amount appropriated.

Enactment of the President's proposed appropriation language for indefinite spending authority for benefit needs in the last 2 months of the fiscal year, in addition to the authorization change, would completely eliminate concerns about reduction, delay or suspension of benefit payments to food stamp recipients.

Question. How is the waiver authority in the Food Stamp Program considered insufficient?

Answer. The Food Stamp Act of 1977 authorized pilot or demonstration projects to test program changes that might improve the Food Stamp Program. Some State agencies have come forward with innovations for reforming the welfare system but have found they cannot be creative as they would like to be because the food stamp waiver authority is not as broad as that of other programs. This is because food stamp waiver authority does not extend to waivers that would lower benefits or restrict eligibility. While this limitation may be perceived as a protection of food stamp recipients' eligibility and benefits, it acts instead to prohibit the Food Stamp Program's participation in demonstration projects testing modifications to several programs—modifications that could work to recipients' overall advantage. The enhanced waiver authority the Department is seeking in the 1990 farm bill would permit closer conformity between the Aid to Families with Dependent Children and Food Stamp Programs leading to meaningful welfare reform as well as maximum State agency flexibility.

Question. What are the details of the provision to allow food stamp use at approved restaurants?

Answer. While we have not worked out all of the details of this proposal, it likely will be similar to the existing provision for authorized restaurants that accept food stamps from elderly and disabled people for meals. That provision operates as follows: FNS field offices authorize restaurants which meet specified criteria to accept food stamps. In order to be authorized, a restaurant must be a private establishment under a contract with a State or local agency to prepare and serve low-cost meals to elderly people and SSI recipients and their spouses. The contracts with restaurants must specify the approximate prices which will be charged. Households eligible for and interested in using their food stamps to buy meals in restaurants in those States where restaurants are authorized to accept food stamps have their food stamp identification cards marked with the letters "CD". Authorized restaurants must check the marked identification cards to establish households' right to purchase meals with food stamps, unless restaurant personnel know that food stamp recipients are eligible to purchase restaurant meals. As of January 18, 1990, 115 restaurants were authorized. During the month of December 1989, restaurants redeemed approximately $28,000 worth of food stamps.

Question. Given the results of last year's report on the prepared meals provision, why is USDA favoring its retention? Is USDA suggesting amendments?

Answer. We recognize that the homeless present unique challenges to the Food Stamp Program. The Food Stamp Program makes special efforts to facilitate participation among the homeless. It is important that we continue to do all we can to help this group.

The results of our evaluation of the prepared meals provision showed that few shelter providers sought certification to accept food stamps, and even fewer actually received any food stamps. Since the evaluation was completed, the number of shelters authorized to accept food stamps has doubled, to about 100. Although many meal providers still choose not to participate in the Food Stamp Program, food stamps can be a helpful alternate source of income for some providers.

This provision was designed to help the homeless make better use of the Food Stamp Program. We realize that allowing the homeless to purchase meals with food stamps will not solve all their nutritional problems. However, we do believe it is important to keep this alternative use for food stamp benefits available to the homeless. For these reasons we have proposed extending the prepared meals provision and expanding it to allow the homeless to purchase prepared meals at authorized restaurants at concessional prices.

Question. Why are nonprofit groups to be included in food stamp outreach?

Answer. The administration's 1990 farm bill includes a proposal to provide $1 million in grants to public or private nonprofit groups who will use the Federal funds to encourage or assist participation in the Food Stamp Program by homeless people. We believe this proposal is needed because, currently, even though special efforts to facilitate their participation are in place and nearly all homeless people are eligible, few homeless people participate in the Food Stamp Program. We believe that there are nonprofit groups in the community who are already serving the

homeless. Such groups should have knowledge of the types of problems homeless people encounter when applying for food stamp benefits. Thus, providing Federal grants to some of these groups should be an effective way to find means of solving those problems and increasing participation by the homeless.

Question. What types of families will be covered by the food stamp child support enforcement proposal that are not covered by AFDC child support enforcement?

Answer. In any given month, there are about 600,000 single parent families who receive food stamps but not AFDC. These families typically live in States with relatively low AFDC benefits—largely in the South—and have incomes that make them ineligible for AFDC.

In general, these households are similar to their counterparts who are currently receiving AFDC.

The principal difference is in the source and amount of income. Food stamp households not on AFDC are more likely to have earnings, earn more and to have higher gross incomes.

—49 percent of the food stamp households without AFDC had earned income compared to 9 percent of those with AFDC.

—On average, among those households with earnings, households without AFDC had higher monthly earned income ($539) than those receiving AFDC ($321).

Question. How much land would have come into soybean production during the 1985 FSA had not farm program signals made it more attractive to plant corn or other program crops?

Answer. It is difficult to go back 5 years to determine what soybean producers may have done differently since farm program signals definitely made it more attractive to plant corn or other program crops. Except for the 1985 crop, the soybean/corn market price relationships during the 1986–89 period favored soybeans. Consequently, if not for the corn program payments and the program planting rigidities, it could be assumed that more soybeans would have likely been planted.

Soybean planted acreage during 1986–89 ranged from 58.0 million acres in 1987 to 60.5 million acres in 1989 with an average planted acreage of 59.5 million acres. Ending stocks during these years ranged from a low of 182 million bushels in 1988 to a high of 436 million bushels in 1986 with an average of 314 million bushels. Soybean ending stocks of over 300 million bushels is considered very adequate. It appears that soybean producers do react to low soybean ending stocks and resulting higher prices by increasing soybean planted acreage the following year.

This is evidenced during the 1988- and 1989-crop-years. Soybean ending stocks during the 1988 drought year were 182 million bushels. The soybean season average price (SAP) for that year was $7.35 a bushel. Producers responded by planting 60.5 million acres in 1989, bringing ending stocks up to 335 million bushels.

The most serious impact of this price fluctuation was the decrease in 1988-crop soybean exports. With the SAP of $7.35 a bushel, soybean exports dropped from 802 million bushels in 1987 to 530 million bushels in 1988. Much of this decrease can be attributed to the price increase. With record crops abroad and a slower demand growth, it is difficult to regain these exports even with a decrease in soybean prices.

Question. Please provide data on the average size (and distribution by sales class) of program payments by commodity and by State.

Answer. We are enclosing a copy of the National Frequency Distribution of 1988 deficiency payments for the listed commodities.

Also enclosed is the comparable data for the State of Indiana. However, since it would be so voluminous, we are only enclosing Indiana and letting you know that this information is available for all States.

We do not have a distribution by sales class.

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	48,470	1,710,289.4	35.3	11,531,977	238	43.26	29.53
1001 - 5000	8,743	1,693,342.9	193.7	17,675,023	2,022	42.83	45.26
5001 - 10000	790	312,820.4	396.0	5,320,215	6,734	7.91	13.62
10001 - 15000	176	94,534.9	537.1	2,147,939	12,204	2.39	5.50
15001 - 20000	55	54,709.1	994.7	925,355	16,825	1.38	2.37
20001 - 30000	21	28,882.2	1,375.3	524,088	24,957	0.73	1.34
30001 - 40000	13	15,930.3	1,225.4	444,680	34,206	0.40	1.13
40001 - 49999	4	8,672.8	2,168.2	171,957	42,989	0.21	0.44
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	3	25,942.9	8,647.6	181,357	60,452	0.65	0.46
75001 - 100000	0	0.0	0.0	0	0	0.00	0.00
100001 - 150000	1	8,017.9	8,017.9	121,662	121,662	0.20	0.31
150001 - 249999	0	0.0	0.0	0	0	0.00	0.00
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	0	0.0	0.0	0	0	0.00	0.00
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	58,276	3,953,142.8	67.8	39,044,253	670	100.00**	100.00**

** DUE TO ROUNDING IN THE CALCULATION, THE TOTAL DOES NOT EQUAL TO 100.00%.

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AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
NATIONAL 1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR OATS

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	18,790	340,736.0	18.1	2,169,700	115	86.63	81.57
1001 - 5000	282	48,648.6	172.5	447,224	1,586	12.36	16.81
5001 - 10000	6	3,894.7	649.1	42,981	7,164	0.99	1.61
10001 - 15000	0	0.0	0.0	0	0	0.00	0.00
15001 - 20000	0	0.0	0.0	0	0	0.00	0.00
20001 - 30000	0	0.0	0.0	0	0	0.00	0.00
30001 - 40000	0	0.0	0.0	0	0	0.00	0.00
40001 - 49999	0	0.0	0.0	0	0	0.00	0.00
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	0	0.0	0.0	0	0	0.00	0.00
75001 - 100000	0	0.0	0.0	0	0	0.00	0.00
100001 - 150000	0	0.0	0.0	0	0	0.00	0.00
150001 - 249999	0	0.0	0.0	0	0	0.00	0.00
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	0	0.0	0.0	0	0	0.00	0.00
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	19,078	393,279.3	20.6	2,659,905	139	100.00**	100.00**

** DUE TO ROUNDING IN THE CALCULATION, THE TOTAL DOES NOT EQUAL TO 100.00%.

B NO. 093089001
PORT ID. MGK819R1

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
NATIONAL 1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR BOATS

PAGE
CURRENT DATE 12-28-
AS OF DATE 09-30-

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	59,770	2,216,527.6	37.1	13,060,482	219	48.04	31.31
1001 - 5000	9,233	1,828,516.4	198.0	18,597,783	2,014	39.63	44.59
5001 - 10000	806	325,873.6	404.3	5,450,183	6,762	7.06	13.06
10001 - 15000	180	97,213.3	540.1	2,195,576	12,198	2.10	5.26
15001 - 20000	55	55,692.7	1,012.6	928,236	16,877	1.20	2.22
20001 - 30000	22	30,418.5	1,382.7	550,404	25,018	0.65	1.31
30001 - 40000	13	15,935.0	1,225.8	444,711	34,209	0.34	1.06
40001 - 49999	4	8,672.8	2,168.2	171,957	42,989	0.18	0.41
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	3	26,447.1	8,815.7	183,164	61,055	0.57	0.43
75001 - 100000	0	0.0	0.0	0	0	0.00	0.00
100001 - 150000	1	8,103.5	8,103.5	121,662	121,662	0.17	0.29
150001 - 249999	0	0.0	0.0	0	0	0.00	0.00
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	0	0.0	0.0	0	0	0.00	0.00
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	70,087	4,613,400.5	65.8	41,704,158	595	100.00**	100.00**

** DUE TO ROUNDING IN THE CALCULATION, THE TOTAL DOES NOT EQUAL TO 100.00%.

B NO. 093089001
PORT ID. MGK819R1

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
NATIONAL 1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR CORN

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	292,324	4,125,964.1	14.1	130,751,377	447	5.67	4.67
1001 - 5000	325,383	22,519,302.9	69.2	790,732,183	2,430	30.98	28.28
5001 - 10000	95,723	17,618,270.7	184.1	672,314,923	7,024	24.24	24.05
10001 - 15000	34,882	10,462,584.1	299.9	423,957,570	12,154	14.39	15.16
15001 - 20000	16,710	6,907,780.2	413.4	288,392,665	17,259	9.50	10.31
20001 - 30000	15,075	8,473,096.7	562.1	360,374,360	23,906	11.65	12.89
30001 - 40000	2,219	1,518,798.5	684.5	74,286,653	33,478	2.08	2.65
40001 - 49999	576	477,926.8	829.7	25,484,247	44,243	0.65	0.91
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	354	365,046.2	1,031.2	20,650,255	58,334	0.50	0.73
75001 - 100000	45	78,179.8	1,737.3	3,870,046	86,001	0.10	0.13
100001 - 150000	12	37,013.2	3,084.4	1,436,313	119,693	0.05	0.05
150001 - 249999	7	37,189.5	5,312.8	1,341,135	191,591	0.05	0.04
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	4	40,262.7	10,065.7	1,293,452	323,363	0.05	0.04
500001 - 750000	1	13,096.7	13,096.7	587,677	587,677	0.01	0.02
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	783,315	72,674,512.1	92.8	2,795,474,856	3,569	100.00**	100.00**

** DUE TO ROUNDING IN THE CALCULATION, THE TOTAL DOES NOT EQUAL TO 100.00%.

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	169,999	2,024,312.1	11.9	48,748,432	287	16.79	14.96
1001 - 5000	57,352	5,105,720.5	89.0	128,376,479	2,238	42.36	39.40
5001 - 10000	10,537	2,625,380.0	249.2	72,577,025	6,888	21.78	22.27
10001 - 15000	2,760	1,103,225.4	399.7	33,226,509	12,039	9.15	10.19
15001 - 20000	1,063	545,367.8	513.0	18,290,602	17,207	4.52	5.61
20001 - 30000	690	431,088.9	624.8	16,302,366	23,627	3.57	5.00
30001 - 40000	153	138,754.1	906.9	5,156,459	33,702	1.15	1.58
40001 - 49999	38	38,136.5	1,003.6	1,670,900	43,971	0.31	0.51
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	22	38,789.1	1,763.1	1,366,118	62,096	0.32	0.41
75001 - 100000	1	1,203.4	1,203.4	77,662	77,662	0.00	0.02
100001 - 150000	0	0.0	0.0	0	0	0.00	0.00
150001 - 249999	0	0.0	0.0	0	0	0.00	0.00
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	0	0.0	0.0	0	0	0.00	0.00
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	242,615	12,051,977.8	49.7	325,792,552	1,343	100.00**	100.00**

** DUE TO ROUNDING IN THE CALCULATION, THE TOTAL DOES NOT EQUAL TO 100.00%.

B NO. 093089001
PORT ID. MGK819R1

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
NATIONAL 1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR COROUM

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	380,087	5,630,608.4	14.8	160,662,546	423	6.64	5.14
1001 - 5000	366,818	26,665,718.6	72.7	886,148,288	2,416	31.46	28.39
5001 - 10000	105,467	20,218,559.3	191.7	740,505,443	7,021	23.85	23.72
10001 - 15000	38,438	11,907,490.4	309.8	467,226,065	12,155	14.05	14.96
15001 - 20000	18,420	7,789,825.5	422.9	317,938,829	17,261	9.19	10.18
20001 - 30000	16,625	9,431,900.8	567.3	397,538,365	23,912	11.12	12.73
30001 - 40000	2,605	1,840,825.6	706.7	87,357,021	33,534	2.17	2.79
40001 - 49999	694	598,457.1	862.3	30,703,024	44,241	0.70	0.98
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	403	432,411.7	1,073.0	23,502,102	58,318	0.51	0.75
75001 - 100000	55	91,924.5	1,671.4	4,679,516	85,082	0.10	0.14
100001 - 150000	15	46,115.0	3,074.2	1,783,545	118,903	0.05	0.05
150001 - 249999	7	37,189.5	5,312.8	1,341,535	191,648	0.04	0.04
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	4	40,262.7	10,065.7	1,293,452	323,363	0.04	0.04
500001 - 750000	1	13,096.7	13,096.7	587,677	587,677	0.01	0.01
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	929,639	84,744,383.8	91.2	3,121,267,408	3,358	100.00**	100.00**

** DUE TO ROUNDING IN THE CALCULATION, THE TOTAL DOES NOT EQUAL TO 100.00%.

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
NATIONAL 1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR WHEAT

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	354,606	7,752,146.7	21.9	130,746,376	369	10.51	10.12
1001 - 5000	176,150	23,879,975.3	135.6	403,532,426	2,291	32.37	31.24
5001 - 10000	43,643	17,956,452.7	411.4	305,989,279	7,011	24.34	23.69
10001 - 15000	15,575	10,692,587.1	686.5	189,056,112	12,138	14.49	14.63
15001 - 20000	7,153	6,705,615.9	937.5	122,940,902	17,187	9.09	9.51
20001 - 30000	3,931	4,603,420.1	1,171.1	91,861,687	23,369	6.24	7.11
30001 - 40000	698	1,073,637.2	1,538.2	23,706,690	33,964	1.45	1.83
40001 - 49999	196	399,860.5	2,040.1	8,681,978	44,296	0.54	0.67
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	126	326,902.9	2,594.5	7,319,563	58,092	0.44	0.56
75001 - 100000	24	86,138.2	3,589.1	2,004,743	83,531	0.11	0.15
100001 - 150000	16	96,315.6	6,019.7	2,016,080	126,005	0.13	0.15
150001 - 249999	5	43,653.4	8,730.7	931,590	186,318	0.05	0.07
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	2	22,555.4	11,277.7	581,833	290,917	0.03	0.04
500001 - 750000	2	61,659.6	30,829.8	1,240,243	620,122	0.08	0.09
750001 - 1000000	1	56,886.2	56,886.2	802,461	802,461	0.07	0.06
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	602,128	73,757,806.8	122.5	1,291,411,963	2,145	100.00**	100.00**

** DUE TO ROUNDING IN THE CALCULATION, THE TOTAL DOES NOT EQUAL TO 100.00%.

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
NATIONAL 1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR RICE

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	6,201	19,455.8	3.1	2,517,535	406	0.48	0.41
1001 - 5000	8,057	149,104.1	18.5	20,896,901	2,594	3.71	3.40
5001 - 10000	3,849	199,048.7	51.7	27,977,645	7,269	4.95	4.56
10001 - 15000	2,361	203,650.7	86.3	29,167,765	12,354	5.07	4.75
15001 - 20000	1,894	230,179.1	121.5	33,064,992	17,458	5.73	5.38
20001 - 30000	2,918	498,128.0	170.7	72,128,105	24,718	12.40	11.75
30001 - 40000	2,515	595,625.7	236.8	87,722,852	34,880	14.83	14.29
40001 - 49999	2,394	712,498.1	297.6	107,704,432	44,989	17.75	17.55
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	2,473	911,435.3	368.6	145,059,898	58,657	22.70	23.64
75001 - 100000	491	245,833.4	500.7	41,687,919	84,904	6.12	6.79
100001 - 150000	205	134,345.5	655.3	24,132,524	117,720	3.34	3.93
150001 - 249999	61	62,701.7	1,027.9	11,053,489	181,205	1.56	1.80
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	23	41,115.7	1,787.6	7,815,584	339,808	1.02	1.27
500001 - 750000	3	7,706.5	2,568.8	1,754,645	584,882	0.19	0.28
750001 - 1000000	1	3,181.7	3,181.7	859,660	859,660	0.07	0.14
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	33,446	4,814,010.0	120.0	613,543,946	18,344	100.00**	100.00**

** DUE TO ROUNDING IN THE CALCULATION, THE TOTAL DOES NOT EQUAL TO 100.00%.

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
NATIONAL 1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR UPL COTTON

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	32,797	224,560.6	6.8	14,711,801	449	1.70	1.17
1001 - 5000	32,153	1,085,502.9	33.8	76,868,448	2,391	8.24	6.12
5001 - 10000	10,832	1,024,326.6	94.6	77,727,194	7,176	7.78	6.19
10001 - 15000	6,226	958,993.1	154.0	76,978,673	12,364	7.28	6.13
15001 - 20000	5,041	1,058,077.9	209.9	87,900,168	17,437	8.03	7.00
20001 - 30000	7,839	2,153,931.8	274.8	195,022,953	24,879	16.36	15.53
30001 - 40000	7,098	2,458,391.0	346.3	247,569,596	34,879	18.67	19.71
40001 - 49999	4,339	1,853,081.1	427.1	192,267,088	44,311	14.07	15.31
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	2,800	1,478,933.3	528.2	163,588,967	58,425	11.23	13.03
75001 - 100000	567	375,719.6	662.6	48,227,739	85,058	2.85	3.84
100001 - 150000	266	224,972.3	845.8	31,264,105	117,534	1.70	2.49
150001 - 249999	85	104,964.4	1,234.9	15,619,752	183,762	0.79	1.24
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	45	95,185.9	2,115.2	15,229,227	338,427	0.72	1.21
500001 - 750000	3	10,980.5	3,660.2	1,886,321	628,774	0.08	0.15
750001 - 1000000	4	16,469.9	4,117.5	3,367,389	841,847	0.12	0.26
OVER 1000000	4	39,970.8	9,992.7	7,232,470	1,808,118	0.30	0.57
TOTAL	110,099	13,164,061.7	119.6	1,255,461,891	11,403	100.00**	100.00**

** DUE TO ROUNDING IN THE CALCULATION, THE TOTAL DOES NOT EQUAL TO 100.00%.

B NO. 093089001
PORT ID. MGK819R1

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
NATIONAL 1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR ELS COTTON

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	0	0.0	0.0	0	0	0.00	0.00
1001 - 5000	0	0.0	0.0	0	0	0.00	0.00
5001 - 10000	0	0.0	0.0	0	0	0.00	0.00
10001 - 15000	0	0.0	0.0	0	0	0.00	0.00
15001 - 20000	0	0.0	0.0	0	0	0.00	0.00
20001 - 30000	0	0.0	0.0	0	0	0.00	0.00
30001 - 40000	0	0.0	0.0	0	0	0.00	0.00
40001 - 49999	0	0.0	0.0	0	0	0.00	0.00
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	0	0.0	0.0	0	0	0.00	0.00
75001 - 100000	0	0.0	0.0	0	0	0.00	0.00
100001 - 150000	0	0.0	0.0	0	0	0.00	0.00
150001 - 249999	0	0.0	0.0	0	0	0.00	0.00
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	0	0.0	0.0	0	0	0.00	0.00
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	0	0.0	0.0	0	0	0.00	0.00

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	400,548	8,305,088.9	20.7	188,856,345	471	4.44	2.98
1001 - 5000	465,380	43,483,548.7	93.4	1,135,383,860	2,440	23.25	17.95
5001 - 10000	151,853	40,125,455.2	264.2	1,072,880,379	7,065	21.45	16.96
10001 - 15000	61,494	26,693,023.5	434.1	750,032,285	12,197	14.27	11.86
15001 - 20000	33,030	19,367,217.2	586.4	571,422,228	17,300	10.35	9.03
20001 - 30000	36,281	24,844,032.7	684.8	880,378,661	24,266	13.28	13.92
30001 - 40000	15,399	9,793,115.3	636.0	532,672,472	34,591	5.23	8.42
40001 - 49999	10,427	6,255,977.7	600.0	464,086,164	44,508	3.34	7.33
50000 - 50000	1	776.5	776.5	50,000	50,000	0.00	0.00
50001 - 75000	7,785	5,225,414.2	671.2	454,747,268	58,413	2.79	7.19
75001 - 100000	1,420	1,266,375.6	891.8	120,938,702	85,168	0.67	1.91
100001 - 150000	614	730,397.8	1,189.6	72,729,269	118,452	0.39	1.15
150001 - 249999	174	328,440.1	1,887.6	31,982,079	183,805	0.17	0.50
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	78	279,254.4	3,580.2	27,058,486	346,904	0.14	0.42
500001 - 750000	8	95,283.3	11,910.4	5,162,030	645,254	0.05	0.08
750001 - 1000000	8	114,880.4	14,360.1	6,829,999	853,750	0.06	0.10
OVER 1000000	4	79,242.5	19,810.6	8,179,139	2,044,785	0.04	0.12
TOTAL	1,184,504	186,987,524.8	157.9	6,323,389,366	5,338	100.00**	100.00**

** DUE TO ROUNDING IN THE CALCULATION, THE TOTAL DOES NOT EQUAL TO 100.00%.

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
NATIONAL 1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR ALL CROPS LIMITED

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	400,522	8,304,502.9	20.7	188,844,953	471	4.44	3.08
1001 - 5000	465,374	43,483,048.3	93.4	1,135,371,871	2,440	23.25	18.56
5001 - 10000	151,852	40,125,188.7	264.2	1,072,875,247	7,065	21.45	17.54
10001 - 15000	61,494	26,693,023.5	434.1	750,032,285	12,197	14.27	12.26
15001 - 20000	33,029	19,366,529.1	586.3	571,405,671	17,300	10.35	9.34
20001 - 30000	36,281	24,844,032.7	684.8	880,378,661	24,266	13.28	14.39
30001 - 40000	15,399	9,793,115.3	636.0	532,672,472	34,591	5.23	8.70
40001 - 49999	10,427	6,255,977.7	600.0	464,086,164	44,508	3.34	7.58
50000 - 50000	6,557	4,673,228.8	712.7	327,850,000	50,000	2.49	5.35
50001 - 75000	3,502	3,212,542.8	917.3	182,057,511	51,987	1.71	2.97
75001 - 100000	15	36,480.3	2,432.0	1,205,585	80,372	0.01	0.01
100001 - 150000	7	25,659.2	3,665.6	796,156	113,737	0.01	0.01
150001 - 249999	4	10,683.1	2,670.8	788,199	197,050	0.00	0.01
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	3	14,723.9	4,908.0	1,243,229	414,410	0.00	0.02
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	2	84,590.2	42,295.1	1,790,228	895,114	0.04	0.02
OVER 1000000	2	62,156.5	31,078.3	5,268,374	2,634,187	0.03	0.08
TOTAL	1,184,470	186,985,483.0	157.9	6,116,666,606	5,164	100.00**	100.00**

** DUE TO ROUNDING IN THE CALCULATION, THE TOTAL DOES NOT EQUAL TO 100.00%.

JOB NO. 093089001
REPORT ID. MGK821R1
STATE 18 INDIANA

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR BARLEY

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CURRENT DATE 12-22-8
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RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	30	132.6	4.4	2,389	80	100.00	100.00
1001 - 5000	0	0.0	0.0	0	0	0.00	0.00
5001 - 10000	0	0.0	0.0	0	0	0.00	0.00
10001 - 15000	0	0.0	0.0	0	0	0.00	0.00
15001 - 20000	0	0.0	0.0	0	0	0.00	0.00
20001 - 30000	0	0.0	0.0	0	0	0.00	0.00
30001 - 40000	0	0.0	0.0	0	0	0.00	0.00
40001 - 49999	0	0.0	0.0	0	0	0.00	0.00
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	0	0.0	0.0	0	0	0.00	0.00
75001 - 100000	0	0.0	0.0	0	0	0.00	0.00
100001 - 150000	0	0.0	0.0	0	0	0.00	0.00
150001 - 249999	0	0.0	0.0	0	0	0.00	0.00
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	0	0.0	0.0	0	0	0.00	0.00
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	30	132.6	4.4	2,389	80	100.00	100.00

JOB NO. 093089001
REPORT ID. MOK821R1
STATE 18 INDIANA

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR OATS

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	63	257.6	4.1	2,873	46	100.00	100.00
1001 - 5000	0	0.0	0.0	0	0	0.00	0.00
5001 - 10000	0	0.0	0.0	0	0	0.00	0.00
10001 - 15000	0	0.0	0.0	0	0	0.00	0.00
15001 - 20000	0	0.0	0.0	0	0	0.00	0.00
20001 - 30000	0	0.0	0.0	0	0	0.00	0.00
30001 - 40000	0	0.0	0.0	0	0	0.00	0.00
40001 - 49999	0	0.0	0.0	0	0	0.00	0.00
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	0	0.0	0.0	0	0	0.00	0.00
75001 - 100000	0	0.0	0.0	0	0	0.00	0.00
100001 - 150000	0	0.0	0.0	0	0	0.00	0.00
150001 - 249999	0	0.0	0.0	0	0	0.00	0.00
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	0	0.0	0.0	0	0	0.00	0.00
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	63	257.6	4.1	2,873	46	100.00	100.00

JOB NO. 093089001
REPORT ID. MGK821R1
STATE 18 INDIANA

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR BOATS

CURRENT DATE 12-22-8
AS OF DATE 09-30-8

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	91	390.2	4.3	5,262	58	100.00	100.00
1001 - 5000	0	0.0	0.0	0	0	0.00	0.00
5001 - 10000	0	0.0	0.0	0	0	0.00	0.00
10001 - 15000	0	0.0	0.0	0	0	0.00	0.00
15001 - 20000	0	0.0	0.0	0	0	0.00	0.00
20001 - 30000	0	0.0	0.0	0	0	0.00	0.00
30001 - 40000	0	0.0	0.0	0	0	0.00	0.00
40001 - 49999	0	0.0	0.0	0	0	0.00	0.00
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	0	0.0	0.0	0	0	0.00	0.00
75001 - 100000	0	0.0	0.0	0	0	0.00	0.00
100001 - 150000	0	0.0	0.0	0	0	0.00	0.00
150001 - 249999	0	0.0	0.0	0	0	0.00	0.00
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	0	0.0	0.0	0	0	0.00	0.00
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	91	390.2	4.3	5,262	58	100.00	100.00

JOB NO. 093089001
REPORT ID. MGK821R1
STATE 18 INDIANA

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR CORN

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	23,718	327,346.2	13.8	11,379,115	480	5.79	5.25
1001 - 5000	25,689	1,516,380.6	64.0	56,487,695	2,385	26.82	26.06
5001 - 10000	7,015	1,308,722.2	186.6	49,577,640	7,067	23.15	22.87
10001 - 15000	2,810	882,841.0	314.2	34,248,603	12,188	15.61	15.80
15001 - 20000	1,418	616,273.8	434.6	24,446,057	17,240	10.90	11.27
20001 - 30000	1,392	838,716.6	602.5	33,163,285	23,824	14.83	15.30
30001 - 40000	152	117,033.4	770.0	5,114,732	33,650	2.07	2.35
40001 - 49999	25	24,564.4	982.6	1,118,345	44,734	0.43	0.51
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	20	18,602.8	930.1	1,118,695	55,935	0.32	0.51
75001 - 100000	1	2,724.1	2,724.1	79,229	79,229	0.04	0.03
100001 - 150000	0	0.0	0.0	0	0	0.00	0.00
150001 - 249999	0	0.0	0.0	0	0	0.00	0.00
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	0	0.0	0.0	0	0	0.00	0.00
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	60,240	5,653,205.1	93.8	216,733,396	3,598	100.00**	100.00**

** DUE TO ROUNDING IN THE CALCULATION, THE TOTAL DOES NOT EQUAL TO 100.00%.

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR GRAIN SORGHUM

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	536	1,189.3	2.2	73,084	136	37.27	50.16
1001 - 5000	33	1,753.4	53.1	67,563	2,047	54.95	46.37
5001 - 10000	1	247.7	247.7	5,039	5,039	7.76	3.45
10001 - 15000	0	0.0	0.0	0	0	0.00	0.00
15001 - 20000	0	0.0	0.0	0	0	0.00	0.00
20001 - 30000	0	0.0	0.0	0	0	0.00	0.00
30001 - 40000	0	0.0	0.0	0	0	0.00	0.00
40001 - 49999	0	0.0	0.0	0	0	0.00	0.00
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	0	0.0	0.0	0	0	0.00	0.00
75001 - 100000	0	0.0	0.0	0	0	0.00	0.00
100001 - 150000	0	0.0	0.0	0	0	0.00	0.00
150001 - 249999	0	0.0	0.0	0	0	0.00	0.00
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	0	0.0	0.0	0	0	0.00	0.00
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	570	3,190.4	5.6	145,686	256	100.00**	100.00**

** DUE TO ROUNDING IN THE CALCULATION, THE TOTAL DOES NOT EQUAL TO 100.00%.

093089001
ID. MOK821R1
ATE 18 INDIANA

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR CORGUM

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	23,725	327,538.6	13.8	11,383,897	480	5.79	5.24
1001 - 5000	23,694	1,516,919.1	64.0	56,512,595	2,385	26.81	26.05
5001 - 10000	7,016	1,309,464.4	186.6	49,601,900	7,070	23.15	22.87
10001 - 15000	2,814	883,893.4	314.1	34,297,272	12,188	15.62	15.81
15001 - 20000	1,419	616,750.6	434.6	24,469,530	17,244	10.90	11.28
20001 - 30000	1,391	838,297.8	602.7	33,148,232	23,831	14.82	15.28
30001 - 40000	153	117,644.3	768.9	5,146,801	33,639	2.07	2.37
40001 - 49999	24	23,677.6	986.6	1,069,580	44,566	0.41	0.49
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	21	19,489.6	928.1	1,170,046	55,716	0.34	0.53
75001 - 100000	1	2,724.1	2,724.1	79,229	79,229	0.04	0.03
100001 - 150000	0	0.0	0.0	0	0	0.00	0.00
150001 - 249999	0	0.0	0.0	0	0	0.00	0.00
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	0	0.0	0.0	0	0	0.00	0.00
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	60,258	5,656,399.5	93.9	216,879,082	3,599	100.00**	100.00**

** DUE TO ROUNDING IN THE CALCULATION, THE TOTAL DOES NOT EQUAL TO 100.00%.

OB NO. 093089061
EPORT ID. MGK821R1
STATE 18 INDIANA

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR WHEAT

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RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	17,356	273,323.7	15.7	5,974,095	344	48.57	47.39
1001 - 5000	3,260	259,178.5	79.5	5,902,431	1,811	46.05	46.82
5001 - 10000	102	26,699.3	261.8	636,011	6,235	4.74	5.04
10001 - 15000	8	3,527.2	440.9	93,206	11,651	0.62	0.73
15001 - 20000	0	0.0	0.0	0	0	0.00	0.00
20001 - 30000	0	0.0	0.0	0	0	0.00	0.00
30001 - 40000	0	0.0	0.0	0	0	0.00	0.00
40001 - 49999	0	0.0	0.0	0	0	0.00	0.00
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	0	0.0	0.0	0	0	0.00	0.00
75001 - 100000	0	0.0	0.0	0	0	0.00	0.00
100001 - 150000	0	0.0	0.0	0	0	0.00	0.00
150001 - 249999	0	0.0	0.0	0	0	0.00	0.00
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	0	0.0	0.0	0	0	0.00	0.00
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	20,726	562,728.7	27.2	12,605,743	608	100.00NN	100.00NN

NN DUE TO ROUNDING IN THE CALCULATION, THE TOTAL DOES NOT EQUAL TO 100.00%.

B NO. 093089001
PORT ID. MGK821R1
STATE 18 INDIANA

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR RICE

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	0	0.0	0.0	0	0	0.00	0.00
1001 - 5000	0	0.0	0.0	0	0	0.00	0.00
5001 - 10000	0	0.0	0.0	0	0	0.00	0.00
10001 - 15000	0	0.0	0.0	0	0	0.00	0.00
15001 - 20000	0	0.0	0.0	0	0	0.00	0.00
20001 - 30000	0	0.0	0.0	0	0	0.00	0.00
30001 - 40000	0	0.0	0.0	0	0	0.00	0.00
40001 - 49999	0	0.0	0.0	0	0	0.00	0.00
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	0	0.0	0.0	0	0	0.00	0.00
75001 - 100000	0	0.0	0.0	0	0	0.00	0.00
100001 - 150000	0	0.0	0.0	0	0	0.00	0.00
150001 - 249999	0	0.0	0.0	0	0	0.00	0.00
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	0	0.0	0.0	0	0	0.00	0.00
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	0	0.0	0.0	0	0	0.00	0.00

JOB NO. 093089001
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AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR UPL COTTON

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	0	0.0	0.0	0	0	0.00	0.00
1001 - 5000	0	0.0	0.0	0	0	0.00	0.00
5001 - 10000	0	0.0	0.0	0	0	0.00	0.00
10001 - 15000	0	0.0	0.0	0	0	0.00	0.00
15001 - 20000	0	0.0	0.0	0	0	0.00	0.00
20001 - 30000	0	0.0	0.0	0	0	0.00	0.00
30001 - 40000	0	0.0	0.0	0	0	0.00	0.00
40001 - 49999	0	0.0	0.0	0	0	0.00	0.00
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	0	0.0	0.0	0	0	0.00	0.00
75001 - 100000	0	0.0	0.0	0	0	0.00	0.00
100001 - 150000	0	0.0	0.0	0	0	0.00	0.00
150001 - 249999	0	0.0	0.0	0	0	0.00	0.00
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	0	0.0	0.0	0	0	0.00	0,00
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	0	0.0	0.0	0	0	0.00	0.00

JOB NO. 893089001
REPORT ID. MGK821R1
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AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR ELS COTTON

CURRENT DATE 12-22-8
AS OF DATE 09-30-8

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	0	0.0	0.0	0	0	0.00	0.00
1001 - 5000	0	0.0	0.0	0	0	0.00	0.00
5001 - 10000	0	0.0	0.0	0	0	0.00	0.00
10001 - 15000	0	0.0	0.0	0	0	0.00	0.00
15001 - 20000	0	0.0	0.0	0	0	0.00	0.00
20001 - 30000	0	0.0	0.0	0	0	0.00	0.00
30001 - 40000	0	0.0	0.0	0	0	0.00	0.00
40001 - 49999	0	0.0	0.0	0	0	0.00	0.00
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	0	0.0	0.0	0	0	0.00	0.00
75001 - 100000	0	0.0	0.0	0	0	0.00	0.00
100001 - 150000	0	0.0	0.0	0	0	0.00	0.00
150001 - 249999	0	0.0	0.0	0	0	0.00	0.00
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	0	0.0	0.0	0	0	0.00	0.00
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	0	0.0	0.0	0	0	0.00	0.00

JOB NO. 893089001
REPORT ID. MGK821R1
STATE 18 INDIANA

AGRICULTURE STABILIZATION AND CONSERVATION SERVICE
POTENTIAL PAYMENT REPORT FOR DIVERSION AND DEFICIENCY
1988 PRODUCER FREQUENCY DISTRIBUTION BY PAYMENTS FOR ALL CROPS

CURRENT DATE 12-22-8
AS OF DATE 09-30-8

RANGE IN DOLLARS	PRODUCER COUNT	BASE TOTAL	BASE AVERAGE	PAYMENT TOTAL	PAYMENT AVERAGE	PERCENT OF TOTAL BASE	PERCENT OF TOTAL DOLLARS
	NO.	ACRES	ACRES	DOLLARS	DOLLARS	PERCENT	PERCENT
1 - 1000	22,875	340,401.9	14.9	11,240,115	491	5.46	4.89
1001 - 5000	24,262	1,631,303.7	67.2	58,130,411	2,396	26.21	25.33
5001 - 10000	7,356	1,433,794.3	194.9	52,084,947	7,081	23.03	22.69
10001 - 15000	2,974	967,641.6	325.4	36,224,936	12,181	15.54	15.78
15001 - 20000	1,515	685,750.5	452.6	26,162,486	17,269	11.01	11.40
20001 - 30000	1,535	963,653.3	627.8	36,799,881	23,974	15.48	16.03
30001 - 40000	187	147,719.6	789.9	6,227,921	33,304	2.37	2.71
40001 - 49999	29	28,535.1	984.0	1,279,338	44,115	0.45	0.55
50000 - 50000	0	0.0	0.0	0	0	0.00	0.00
50001 - 75000	22	22,009.8	1,000.4	1,260,823	57,310	0.35	0.54
75001 - 100000	1	2,724.1	2,724.1	79,229	79,229	0.04	0.03
100001 - 150000	0	0.0	0.0	0	0	0.00	0.00
150001 - 249999	0	0.0	0.0	0	0	0.00	0.00
250000 - 250000	0	0.0	0.0	0	0	0.00	0.00
250001 - 500000	0	0.0	0.0	0	0	0.00	0.00
500001 - 750000	0	0.0	0.0	0	0	0.00	0.00
750001 - 1000000	0	0.0	0.0	0	0	0.00	0.00
OVER 1000000	0	0.0	0.0	0	0	0.00	0.00
TOTAL	60,756	6,223,533.9	102.4	229,490,087	3,777	100.00**	100.00**

** DUE TO ROUNDING IN THE CALCULATION, THE TOTAL DOES NOT EQUAL TO 100.00%.

Question. Please provide detailed explanations of the estimates in the President's budget that savings could be made by denying subsidies to (a) persons with adjusted gross incomes above $100,000 and (b) persons with over $500,000 in gross sales.

Answer. While reducing overall payments is essential to meeting budget goals, the administration also is concerned about the distribution of those subsidy payments. The number of farms has dropped by 50 percent, and commercial farms today are much larger and more specialized than they were in the 1930's when support payments were first introduced. A significant portion of benefits goes to larger, wealthy farmers. In an era of limited resources, this is hard to justify.

In 1987, for example, 30 percent of the $22.4 billion in commodity related subsidies paid to individuals went to the 4 percent of farm operators with average net total cash incomes of more than $100,000 per year, and with net worths of nearly $850,000.

In 1988, 30,000 farms (1.4 percent of all farms) had gross sales over $500,000. They accounted for 37 percent of the cash receipts from sales of farm commodities, 8.4 percent (about $1.2 billion) of all direct Government payments, 11 percent of harvested program crop acres, and 9 percent of all acres in conserving uses under Government programs.

Clearly, some reductions in Federal payments can be achieved simply by eliminating payments to the wealthiest, least needy farmers.

QUESTIONS SUBMITTED BY SENATOR DOLE AND RESPONSES THERETO

Question. With greater flexibility, do you expect greater wheat production; and if so, to what extent in both acres and bushels?

Answer. Initially, given current commodity price relationships, wheat acreages are likely to increase slightly under the USDA flexibility proposal. Assuming the commodity price relationships in the FY 1991 President's budget, under the administration's flexibility proposal we would expect wheat acreage increases of 2 to 3 percent over the current law baseline. Production increases would be commensurate with the acreage increases, but would likely move to a level at which stock targets were maintained.

Question. What impact on wheat prices are the administration proposals likely to have?

Answer. The U.S. wheat market is currently facing tight supplies, and under the budget baseline assumptions supplies are expected to remain fairly tight for the next several years. The administration proposal likely would result in more wheat production, larger exports, some stock rebuilding, and slightly lower prices, compared with an extension of 1985 Act programs. The average farm price of wheat could be 4-5 percent lower under the administration proposal, however, wheat sector income would likely rise. Ultimately, the quantity of wheat produced under the administration proposal would depend on how farmers view market returns from wheat in relation to returns from other crops. This means that wheat and others crops would be produced to meet market demand, no matter how it unfolds in the 1990's.

QUESTIONS SUBMITTED BY SENATOR BOSCHWITZ AND RESPONSES THERETO

Question. The President's FY91 budget calls for a cut of $235 million for the School Lunch Program. In the past Congress has rejected cuts in this important nutrition based program based on evidence that with decreased general support for operating their School Lunch Program, schools would drop out of the program altogether. Was this factor taken into consideration?

Answer. Previous proposals to cut funding for the National School Lunch Program eliminated cash and commodity subsidies for all paid students—those children from households above 185 percent of poverty. The current proposal is significantly different. First, benefits are reduced only for children from households with incomes above 350 percent of poverty, $44,450 for a family of four. Second, the proposal increases subsidies for meals served to children in the reduced price category. The combination of these two changes retargets program funds to more needy children while producing net savings of about $180 million in fiscal year 1991.

We do not anticipate that many schools will drop the program as a result of the proposed changes. Even schools most affected by the proposal—those serving over 80 percent of their meals to children from households with incomes above 350 percent

of poverty—will continue to receive over 80 percent of their combined student revenue and Federal subsidies, after accounting for decreased participation due to higher prices. Schools retain most of their meal program funding because USDA support for paid meals is a small proportion of combined student revenue and Federal subsidies. It is unlikely that a school retaining this level of subsidy would drop the program.

Question. In addition, schools have not received the same level of bonus commodities that they have in past years. The estimates I've heard are a loss of about $300 million in bonus commodities—primarily cheese—over the last few years. Was this situation taken into account when proposing the school lunch cut?

Answer. Because bonus commodities are not part of schools' legislated commodity support or per meal subsidy, reductions in bonus commodities are unrelated to the fiscal year 1991 school lunch budget proposal. While bonus commodities are an extra benefit to the program, the Department cannot count on their availability. By the same token, schools should not plan to have bonus commodities each year, and should not expect that they will be a continuing source of support.

Schools may need to be innovative in adapting to shifts in bonus commodities. Menus or food purchases may need to change as bonus commodities fluctuate. And, there is every indication that schools have adapted to changes in bonus commodities in the past. If meal quality suffered or prices rose, we would expect to see program participation drop.

A review of historical data does not show an obvious participation effect. Lunch participation has increased since 1982, while bonus commodity donations peaked in 1987 and then started to decline. Other measures of program activity, such as the number of schools in the program and enrollment in these schools, have also increased in recent years, while bonus commodity levels have fluctuated.

Question. I'm also concerned about how this school lunch proposal would work. Now at the beginning of the year the children's family completes an application for free or reduced price meals and a determination is made by the school. This committee has heard testimony from food service personnel and school administrators that this process is a paperwork burden. It seems to me that this new proposal would result in even more paperwork and have complications for the local school. The schools would have to collect income information from most, if not all, families. Why would it be advantageous to make this program more cumbersome and more paperwork oriented?

Answer. The mechanism for collecting information about households is already in place. The authorizing legislation for the program and current regulations require that an application form be distributed to households of all children enrolled in a school. Therefore, schools would not experience any additional burden associated with the distribution of applications. Moreover, some households currently submit applications for free or reduced-price benefits even though they are not eligible, and schools must consider these applications. Consequently, in some cases schools would not have to review significantly more applications than is presently the case. Finally, while some schools may have an increase in the number of applications to be reviewed, schools which serve large proportions of needy children should not be greatly affected.

Question. The President's budget requests $2.215 billion for WIC. USDA estimates that 4.7 million women and children can be served by this level of funding. WIC is cost effective and the most broadly supported nutrition program. Since WIC serves only about 60 percent of those eligible for the program, would further increases be justified at this time?

Answer. As you have noted, the WIC Program currently serves a significant percentage of the eligible population. Furthermore, WIC resources are well targeted so that service to pregnant women and infants now approaches saturation. We estimate that about 90 percent of eligible pregnant women and almost all eligible infants participate in WIC. Furthermore, we expect the degree of service to other categories of eligible persons to increase in fiscal year 1991 under the administration's proposed budget of $2.215 billion in combination with food cost containment initiatives mandated by Congress (infant formula rebates).

The dramatic program expansion made possible in, a very short time period by infant formula rebates over the past 2 years has placed some stress on the WIC Program service delivery infrastructure. In light of the fact that high priority participants are well served at participation levels envisioned in the President's budget request and the strain on local agencies ability to provide quality services, we do not support further major increases at this time.

Question. The President's budget calls for a means test for family day care providers participating in the Child Care Food Program. I am concerned that this ap-

proach is simply not workable or practical for day care homes. Most of the children cared for in day care homes are neighbors or relatives. This committee has heard testimony that a means test would require the collection of sensitive financial information from the neighbors or relatives and could in fact drive the day care providers out of the food program and underground. Clearly that would not be beneficial to the child care situation in general. Would you agree?

Answer. The provision in the President's budget which would require a means test in family day care homes, is in fact, a reinstitution of one in effect prior to the enactment of Public Law 95–627 in November 1978. As a result, day care home providers receive the equivalent of a free meal subsidy for meals served to all children regardless of income. Children in child care centers and in schools receive Federal subsidies based on family income. If participants in Family Day Care Homes were treated the same as those in child care centers and schools, only about 29 percent of the children would be eligible for free meals. About 71 percent of the family day care home participants are from households with incomes above 185 percent of poverty. Their household median income exceeds $33,000 for a family of four and they would be eligible for a lower subsidy, corresponding to their ability to pay for meals.

We can appreciate the argument that providing income information might cause concern on the part of parents and providers in some instances. However, we believe that it would have little if any impact on the child care situation in general. Further, we believe that information like this is provided regularly under all the other child nutrition programs and in some cases under comparably sensitive situations. Also, Family Day Care Homes participate in the Child Care Food Program through sponsoring organizations. In order to avoid concerns about sharing sensitive information with friends or relatives, we expect that many of the sponsoring organizations would handle the paperwork associated with our proposed means test.

QUESTIONS SUBMITTED BY SENATOR PRESSLER AND RESPONSES THERETO

Question. Tell Secretary Yeutter that South Dakota as well as other Midwestern States is faced with a drought again in 1990. This could result in a severe grasshopper infestation. Matching funds need to be made available for grasshopper control for cropland in eastern South Dakota under the APHIS program.

Answer. USDA has been working with research people in South Dakota regarding the unusually high densities of grasshopper eggs found in South Dakota this year. APHIS, PPQ will be carefully monitoring the grasshopper situation in this area through regular grasshopper surveys and the grasshopper IMP program. We will also be monitoring the spring weather in South Dakota since April rains could reduce populations below the economic level that would normally trigger control efforts. Currently, the level of infestation considered to be economically damaging is eight or more grasshoppers per square yard.

APHIS has sufficient (no year) funds to cooperatively fund grasshopper outbreaks. APHIS is prepared to handle grasshopper problems that require treatment on rangeland in blocks of at least 10,000 acres where up to 20 percent may be cropland. APHIS provides only technical assistance for grasshopper problems on private cropland.

Question. Will there be a signup for the Conservation Reserve Program (CRP) this spring? Many South Dakota farmers have written and called requesting that one more signup be held this spring.

Answer. The administration's 1990 farm bill proposal, embodied in the "Green Book," recommends that Congress extend the enrollment period for CRP through 1995 and expand it to include other high priority environmental concerns.

Under current legislation the administration is required to enroll at least 40 million acres by the end of the 1990 crop-year. Between then and now we anticipate that Congress and the administration will work together to develop a new farm bill which will include CRP-style conservation and environmental provisions.

Rather than preempting consideration of improvements to the program by enrolling land in the CRP immediately, we are opting to wait until the new farm bill is enacted. If Congress and the administration jointly decide to retarget CRP enrollment efforts, the funding will already be available. However, if no changes are made in the CRP, the administration will proceed to enroll acreage under current eligibility standards.

Question. What does the administration plan for the Conservation Reserve Program (CRP) in the 1990 farm bill? You would like to see wetlands be made eligible that are critical to ground water protection.

Answer. A recent report prepared for Congress by the General Accounting Office (GAO) indicated that greater environmental benefits could be achieved more effectively by the CRP if the program were retargeted toward high priority environmental concerns. Although the USDA does not agree with all aspects of the GAO reports, we do agree that the CRP could be refocused to obtain greater environmental benefits.

The Nation's rural residents are increasingly concerned about the safety of their drinking water. To enable producers to reduce cropping on land where pollution of ground water is a problem, we have proposed that the 1990 farm bill provide for extension of the current CRP enrollment period through 1995. Other proposed modifications to the CRP would allow CRP enrollment of (1) all cropland within 1,000 feet of a well with a State-approved wellhead protection area, and (2) other lands on which the Secretary determines that the potential for water pollution resulting from continued agricultural production justifies retirement from cropping. Targeting enrollment to these areas will help minimize drinking water contamination. Water quality concerns also would be addressed through our proposal to enroll filter strips and grass waterways.

The administration recommends that the 1990 farm bill support efforts to increase wetland resources by providing for extension of the current CRP time period for which contracts may be entered into for the purposes of restoring cropping wetlands.

Question. What about making sodbuster/swampbuster penalties commensurate with the violation? You have worked with a South Dakota producer who unknowingly planted on 2 acres of a drained wetland. He was going to lose $77,000 in program benefits. Your office helped him with his appeal in Washington and met with the appeal board. His appeal was granted and he was not fined. Several other South Dakota producers have potential penalties which could drive them into bankruptcy. This needs to be changed in the 1990 farm bill.

Answer. While Section 1244 of the Food Security Act of 1985 (the Act) provides a basis to recognize the *de minimis* effect of certain actions in making the decision as to whether there has been a violation making an applicant ineligible for program benefits, the Act does not authorize the use of discretion if it is determined that a violation has occurred. We are still handling questionable cases on a "case-by-case" basis.

The Office of the General Counsel has advised that the Act does not give the Department of Agriculture agencies authority to implement a failure to fully comply provisions. Thus, we must continue handling questionable cases on a "case-by-case" basis.

Question. What are the administration's plans for the honey program?

Answer. USDA proposes to simplify the operation of the program, save budget outlays, and still protect farm income at current levels. Under the current program, close to 90 percent of U.S. honey production is pledged as collateral for Commodity Credit Corporation price support loans. This occurs almost solely for the purpose of acquiring benefits under the honey marketing loan program. The proposal will not reduce producer income but will direct honey to the market, not to the Government. Therefore, it will save several million dollars annually in administrative expenses.

The administration believes that price support loans are not the most effective means to support incomes of beekeepers. We believe a target price/deficiency payment program would be a better approach.

Our proposal for the 1990 farm bill has these key features:

(1) A target price set at the 1990 price support level and adjusted in line with changes in target prices of other commodities.

(2) A price support rate set at 75 to 85 percent of the average market price during that previous 5 years, excluding the high and low years, as is provided for in current law.

(3) Continuation of the discretionary provision for a loan repayment rate below the established price support rate.

(4) Payments and loan repayment benefits subject to the $250,000 limit per person.

We think the same level of income support can be provided at less Government cost under our proposal simply because there would be fewer loan outlays and fewer forfeitures to the Commodity Credit Corporation.

Our honey program proposal gives Congress an opportunity to reduce spending without reducing Government income support for beekeepers.

Question. Ask Secretary Yeutter to have USDA authorize ASCS offices to buy back PIK certificates at face value immediately after they are issued rather than after 6 months as they do now.

Answer. As you know, there is a ready and well understood market for certificates; they easily can be sold for cash. Farmers holding certificates at this time do not find this option as attractive as they might have in the past since certificates currently are trading at 95 to 97 percent of face value. At other times, though, producers have been able to reap financial gains when certificates have traded above par value.

Many of the current calls for a change in our certificate exchange policy are coming from those who must repay unearned 1988 deficiency payments. However, while allowing certificates which haven't reached their 5-month maturity dates to be used to repay unearned deficiency payments would be beneficial to those farmers who are original holders of certificates, it would be unfair to others. Most of the certificates presently owned by original holders were issued as 1989 disaster payments, while repayments due at this time are primarily from farmers who did not qualify for disaster assistance in 1988 or 1989 on the crops for which repayment is required.

In other words, the farmers who must repay unearned deficiency payments at this time and those who hold original certificates are by and large not the same people. Therefore, allowing some farmers to use certificates to, in essence, repay their unearned deficiency payments, while requiring others who do not have access to certificates to repay their payments with cash would be inequitable.

Finally those farmers who received unearned 1988 deficiency payments on a specific crop but qualified for 1988 or 1989 disaster assistance on that same crop do not have to repay the CCC until July 31, 1990. Thus, those farmers who already have or soon will receive 1989 disaster payments in the form of certificates will be able to exchange them for cash at their full face value by July since the certificates' 5-month maturity dates will have been reached.

Question. Ask Secretary Yeutter what the administration proposes for target prices and loan rates for the 1990 farm bill. Do they propose them to continue downward or are they considering freezing them?

Answer. Target prices, program yields, acreage bases, payment limitation provisions and a host of other agricultural policy tools work together and will have a combined effect on the policy and budgetary outcome of the 1990 farm bill. Therefore, target prices cannot be examined in isolation from other policy tools. We will work closely with Congress to achieve common policy and budgetary objectives.

The price support rate formula specified in the 1985 Act for wheat and feed grains should be used for Upland cotton, ELS cotton, rice and soybeans as well. This formula, which sets the price support rate at 75 to 85 percent of the average price received by producers during the previous 5 years (excluding the high and low years), has worked well for wheat and feed grains. It has kept these commodities competitive in the international marketplace while still providing a safety-net for producers. We are recommending that the current $4.50 per bushel minimum price support rate for soybeans be maintained but that minimum price support rates for cotton and rice should be eliminated. Cotton and rice producers, along with wheat and feed grain producers, receive income support through target prices and therefore are protected when price support rates are reduced. Since the soybean program has no provision for target prices, the soybean price support rate therefore serves the dual role of price and income support and the $4.50 minimum therefore should be retained.

Using the same price support rate formula for cotton and rice as that used for wheat and feed grains, along with eliminating minimum price support rates for cotton and rice, would allow price support rates to better reflect safety-net price support levels at 75 to 85 percent of past market prices. All loans would be 9-month loans, but the Secretary may extend loans if market conditions warrant. All crops then would be treated equally in terms of loan rate adjustment formulas. Mandatory marketing loans would continue for Upland cotton and rice. Deficiency payments for all target price commodities would be subject to a limit of $50,000 per person. However, the portion of the total payment attributable to any discretionary reduction of up to 20 percent in the formula price support rate would be subject to the current combined $250,000 limit.

Question. Ask Secretary Yeutter to look at a system of making advance deficiency payments a guaranteed payment regardless of what the market price does. This could cost more on the budget but would alleviate the administrative costs ASCS is now going through in collecting an 8 cent refund now due from 1988.

Answer. The Department of Agriculture is reviewing various alternatives to eliminate or lower the probability of advance payment refunds. Guaranteeing advances is only one of several such options. With a guaranteed advance, the amount of payment guaranteed to producers that under current rules would be considered

unearned would nearly always be greater than the cost of collecting it under current rules.

However, a guaranteed-advance option involves more issues than budgetary impacts. For instance, guaranteed advances represent a fixed subsidy per unit produced and may therefore, serve as an incentive to plant a crop based primarily upon the guaranteed payment instead of basing such a decision on market factors.

TESTIMONY BY SENATOR PRESSLER, SECRETARY YEUTTER, SENATORS CONRAD AND HARKIN PERTAINING TO FEDERAL CROP INSURANCE

Mr. PRESSLER. Hundreds of farmers and insurance agents have written and called supporting Federal crop insurance. What would be necessary for the administration to consider keeping Federal crop insurance in the budget?

Mr. YEUTTER. Over the years we have tried a number of alternatives to crop insurance. None of them have succeeded and we continue to have ad hoc disaster payments. We have indicated that we can live with one or the other, but that the cost must be realistic and within budget limitations. We have forwarded our budget, but we are willing to consider, and to work with the Congress to develop, a crop insurance alternative which eliminates the pressure for disaster payment legislation and meets budget targets.

Mr. CONRAD. The Federal Crop Insurance Program is important for farmers to manage their risk. Therefore it is not surprising that so many were astounded at USDA's proposal to eliminate the program. It clearly has many faults—one of the major faults is the fact that it replaces such a small part of the cost of production even with major losses. The most critical factor for the committee's evaluation of the insurance versus disaster program debate is to have ready analysis of the costs of various options. Will you commit to have USDA analysts help the committee analyze the costs and benefits of various options?

Mr. YEUTTER. We have said, from the day that the budget was announced, that we would work with the Congress to evaluate alternatives to the administration's proposal. We certainly will provide whatever resources are appropriate to assist in your efforts to evaluate various ideas you may have.

Mr. CONRAD. How would the disaster program you propose deal with farmers who have lost most of their crop due to natural causes, but who live in counties which have not suffered enough losses to trigger the program?

Mr. YEUTTER. The proposed disaster program will provide farmers with a safety net of protection in the event of widespread crop loss. Most yield shortfalls due to adverse weather, such as drought, are generally widespread and would be covered by the proposed program. It is not intended to provide the same degree of individual protection as offered by crop insurance. However, many individual disasters, such as hail or fire, are covered by privately offered crop insurance. The proposed disaster program would provide an umbrella under which private industry can design a multiperil program for individual producers without government interference.

Mr. HARKIN. The administration's proposal to abolish the Federal Crop Insurance Program and return to a disaster payment program has certainly drawn a lot of attention to the issue; perhaps that was its real purpose. As you know, the Crop Insurance Act of 1980 was the result of many years of dissatisfaction and frustration with the abandoned disaster payment program covering only wheat, feed grains, cotton and rice. Why would the proposed disaster program work any better now to cover 49 commodities when the program covering only 4 commodities was fraught with problems?

Mr. YEUTTER. The Federal Crop Insurance Program has proven costly and participation has been low. Our proposed program would provide assistance to many producers who have not participated in Federal crop insurance. This extended coverage should make ad hoc disaster legislation unnecessary.

Mr. HARKIN. The proposed disaster payment program would provide disaster payments to a farmer only if production in the county as a whole is below 65 percent of normal. How does this proposal fit with the goal of helping individual farmers find ways to manage risk on their particular farms? Moreover, since the Crop Insurance Program was created to wean farmers away from disaster bailouts and encourage them to arrange for their own risk management in the private sector, is it not ironic that this administration, a strong proponent of private sector solutions, would advocate returning to a government disaster payment program?

Mr. YEUTTER. We recognize that our proposal does not address individual farm situations. It does, however, address the need to provide for rural communities hardest hit by disaster experiences. We believe that this commitment will encourage the

private sector to build more cost effective insurance policies to deal with individual disasters. This is consistent with the private sector's providing of named peril policies such as fire and hail. Our proposal assures the private sector that it can build on a reliable foundation of assistance to craft supplemental insurance benefits.

Mr. HARKIN. Although the administration has proposed discontinuing the Crop Insurance Program both in its budget submission and in its farm bill proposal, no funding has been proposed for a disaster payment program in the administration's proposed budget for fiscal 1991. Will the administration submit a budget proposal for a disaster payment program for fiscal 1991? Will the administration submit a proposed modification to its fiscal 1991 budget proposal to provide for the proposed disaster payment program?

Mr. YEUTTER. Since we are never able to predict either the occurrence or the severity of any disaster event in agriculture, we cannot provide a budget estimate for the disaster program. We expect that the estimated costs of any disasters that occur will be part of the ongoing budget reviews which take place during the fiscal year.

Mr. HARKIN. How much will the administration recommend Congress provide in the budget for a disaster payment program for fiscal 1991? What changes would be necessary in the budget proposal already submitted to Congress in order to allow for funding of the proposed disaster payment program?

Mr. YEUTTER. No changes in the 1991 budget proposal are needed to fund the administration's disaster assistance proposal. The ongoing review of the budget during the fiscal year would permit adjustments in CCC funding in situations when adverse weather or other disasters resulted in payments to producers under the disaster payment program.

Mr. HARKIN. As you know from the questions and letters you have received from me, I agree that the current Crop Insurance Program needs to be changed. My chief complaint lies with the Federal Crop Insurance Corporation and the administration and management of the program. I am concerned that the program has not really been given a chance to work since its inception. That is why I am troubled by this abrupt recommendation to abolish the program outright. You have received numerous suggestions for improving the program, including the extensive and carefully considered recommendation and finding of the Commission for the Improvement of the Federal Crop Insurance Program, and it is still early in this administration and in your tenure as Secretary of Agriculture.

Why is the administration rushing to abolish the program, really right on the heels of the Commission's report, without attempting to improve the program through changes in administration and management, and through proposed legislative improvements?

Mr. YEUTTER. The Federal Crop Insurance Corporation had difficulties throughout the 1980's, although the legislation of 1980 was intended to get participation up to 50 percent and remedy problems with earlier FCIC programs. Moreover, FCIC has undergone extensive administrative and management changes during the past 2 years. We reviewed these efforts and, as the General Accounting Office noted in a recent report on claims activity, found significant improvements in operations. No doubt we would see even greater benefits as time went on. We also carefully considered the various recommendations of the crop insurance Commission, and most of the recommendations for 1990 program improvements contained in the Commission's April report were implemented. The few that weren't, and which were repeated in the principal report released in July, 1989, were determined to expose the Government to hundreds of millions of dollars in additional costs without any assurance that participation would reach levels sufficient to forestall disaster payment legislation in the face of adverse experiences. We cannot accept either the additional costs, or the possibility of duplicative disaster programs, in these times of budget limitations. We therefore proposed what we believe is a responsible alternative. However, we have continued to express our desire to work with you and your colleagues to develop an acceptable program.

PREPARATION FOR THE 1990 FARM BILL

Trade

WEDNESDAY, FEBRUARY 21, 1990

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 9:35 a.m., in room SR-332, Russell Senate Office Building, Hon. Patrick J. Leahy (chairman of the committee) presiding.

Present or submitting a statement: Senators Leahy, Conrad, Daschle, Kerrey, Lugar, Cochran, Boschwitz, and Gorton.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. As often happens, and partly because of the visit by the new President of Czechoslovakia, we have some changes in scheduling, and some of the Senators will be in and out as a result. I just checked and I know Senator Lugar is on his way. I will start with my opening statement and any other Senator who has an opening statement, and then we will, of course, interrupt the order for Senator Lugar.

Today's hearing, just so I will note for the record, is the final scheduled hearing on agricultural trade as we prepare for the 1990 farm bill. We had a full committee hearing on Public Law 480 last fall. Senator Boren's subcommittee held a hearing on agriculture export programs just a few weeks ago.

Today, we will hear the administration's agricultural trade proposals for the farm bill and we will review the operation of our current trade programs.

The obvious question from the public: why is trade important to our farmers? The very easy answer is without those agricultural exports, American agriculture would lose $35 billion in annual sales. Also, considering the enormous trade deficit we have been running the last 2 or 3 years, about the only bright light on that overall trade deficit has been in agricultural trade.

Without these exports, our wheat farmers would see their market shrink by around 50 percent. The corn farmers would lose demand for 50 million metric tons of product. The demand for cotton would drop by about 7 million bales.

Without those sales, we would have an anemic agriculture that could not support our farmers, and I hate to think what the effect would be on rural America.

So we have to maintain and expand that export demand. But to succeed in international trade markets, we must be able to compete.

I would love to be able to come here today and promise American farmers that the Federal Government will have more money to help them compete internationally. But the realities of our budget deficit make this unlikely, and, in fact, the deficit itself will drive this issue more than policy will.

We have but one course of action for our international trade programs. We must do more with the funds we have. To do this successfully, I believe:

WE MUST PLAN FOR THE LONG TERM

Our primary goal should be sustained growth in our export sales. We should view markets as long-term projects. And we must make a commitment, over a period of years, to those markets. A commitment of dependable supply and high quality product.

WE HAVE TO TARGET OUR MARKETS

Though we state that our future is in the developing world, our market development expenditures are, frankly, embarrassing. We should target the most promising markets, adopt a long-term market development strategy for those markets.

WE HAVE TO INTEGRATE OUR PROGRAMS

I am working with the staff to develop significant improvements to our trade programs. We have to integrate the laws governing our Public Law 480 programs and our trade promotion programs. We need a coordinated trade strategy.

FINALLY, WE MUST RUN OUR PROGRAMS BETTER

There have been many studies criticizing our export promotion programs over the past 3 years. I sometimes worry that nobody is reading those studies. There is new evidence of massive bank fraud involving one of the major participating banks in the export credit guarantee programs. The Department must do a better job of overseeing and evaluating these programs.

But we cannot export and compete if we do not have a healthy farm economy. We must be ready to spend the funds needed to protect farm income. We cannot be competitive in the future without adequate farm income today.

Recent studies by the Economic Research Service indicate that trade liberalization, without sufficient government income support, would gut our farm economy. The administration has failed to specify in its farm bill proposal and in its GATT proposal how much it is willing to spend to support farm income. I have sent a letter to the Secretary outlining my concerns in this area.

I hope that the information we get today will help us write legislation that will establish a firm foundation for our trade policy through the 1990's, legislation that realistically looks at our budget

situation and our need for a long-term commitment to competitiveness.

I yield to my good friend from Indiana, Senator Lugar, a man who has dealt with these international trade issues as long and more thoroughly than probably anybody else in the Senate.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Thank you very much, Mr. Chairman. Dr. Crowder, it is good to have you here this morning. I appreciate the opportunity to hear the position that you will present. I would suggest that, among other things, I am hopeful that you will explore during your testimony or during questions the extent to which our export enhancement programs are based upon the fact that other nations are indulging in dumping or in unfair trade practices. To what extent have we come to look upon export enhancement as simply a method of moving more of our exports into the markets?

I would hope that we have good grounds with regard to the former situation. There are, in fact, severe problems sometimes with good friends in Europe or elsewhere, because of their policy dilemmas or dumping, and we are using export enhancement in retaliation for that as opposed to simply an expedient to move along our exports at low cost. Likewise, I share with the chairman a desire to know about the efficiency of the management of these programs, the particular management controls that the administration is applying or will continue or wishes to apply that may need support from this committee in the drafting of legislation to the extent that is necessary.

And finally, of course, we hope to gain from you some insights from your own recent travels in Europe, particularly in Eastern Europe, of what our policies should be. And if there should be changes made in them, what sort of opportunities are available to us and what sort of things we ought to do in a humane way to help persons during their transition? I will look forward to your testimony. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Lugar. Senator Gorton.

Senator GORTON. No opening statement, Mr. Chairman.

The prepared statements of Senators Conrad and Cochran, without objection, will be inserted in the hearing record.

[The prepared statement of Senators Conrad and Cochran follow:]

PREPARED STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

I want to commend the Chairman for holding this important hearing. Agricultural trade is extremely important to my home State. However, we are increasingly finding that foreign subsidies and trade barriers are reducing trade in our commodities and products. Moreover, the 1990 farm bill and budget will send a very important signal to the European Community and our other competitors on whether we will fight to retain our export markets or surrender.

I must say that I am extremely disappointed in the signal that the administration is sending in regards to agricultural trade. Their motto seems to be, "Speak loudly and disarm."

First, on the budget, the administration is proposing a $2.4 billion cut in the farm program function—a $1.5 billion cut in commodity programs, a $400 million cut in crop insurance, and a $500 million cut in credit programs. These kinds of cuts will force a 15 to 20 cent reduction in target prices for wheat or a substantial change in

the farm programs. When my farmers are being harmed by $9 per bushel subsidies for EC Durum and $28 per hundredweight for EC sunflowers, I find this kind of unilateral disarmament to be very disturbing.

In addition, the United States has a history of using far less of the Export Enhancement Program funds than are available. In fiscal year 1989, we used a little over 40 percent of the available funds. Why would the Europeans be concerned about an increase? They spend more in a month on export subsidies than we spend all year.

Finally, the administration's proposal to delink farm program payments from production will harm the United States. Every study that we have reviewed suggests that unilateral delinking will harm our producers as subsidized producers take over the markets. Let me quote from one such study:

> "The decline in production for a liberalizing [delinking] country would be more under unilateral liberalization than under multilateral liberalization."

It is also true that unilateral delinking will harm our processors as foreign processors, close to the location of production of raw materials, gain a locational advantage.

I must say that I find the signal that the administration is sending on agricultural trade to be one of surrender. We are saying that we will not stay the course, that we are going to give up the fight.

The administration's policies are extremely shortsighted and a betrayal of American agricultural industry—input industries, farmers, and processors. It is time that USDA carried out a detailed analysis of the effects of the administration proposal on farm income, agricultural trade, and agricultural businesses. USDA should have the courage to make such a study available for public review and criticism.

PREPARED STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Mr. Chairman, trade policy is particularly important to the success and prosperity of production agriculture. Senator Boren and I are cosponsors of a trade bill designed to assist the Department of Agriculture in trade program implementation and to improve U.S. competitiveness in foreign markets.

Export and market development programs have played a major role in the growth of U.S. agricultural trade. The Agricultural Trade Promotion Act of 1990 will reauthorize the Export Enhancement Program, Export Credit (GSM programs), Targeted Export Assistance, and the Cooperator Program.

A strong trade title is essential in 1990. We must send a clear message to our foreign competitors as we continue GATT negotiations that export subsidies and other trade distorting practices will not be tolerated.

The CHAIRMAN. Secretary Crowder, it is all yours.

STATEMENT OF RICHARD T. CROWDER, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS; ACCOMPANIED BY ALAN C. RAUL, GENERAL COUNSEL, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Dr. CROWDER. Thank you, Mr. Chairman and members of the committee. I appreciate the opportunity to come before you to discuss the U.S. agricultural trade and the administration's 1990 farm bill proposals.

As you indicated, Mr. Chairman, we all know the importance of trade to U.S. agriculture and the impact the shrinkage in agricultural trade in the 1980's had on the U.S. farm economy. We also know the reasons for it, and I will not review those although they are outlined in my written testimony.

CHANGING ROLE OF THE EUROPEAN COMMUNITY

I do think, however, it is important to point out the changing role of the European Community. The European Community (EC) has become a fierce U.S. competitor in the world commodity mar-

kets, especially for grain. This occurred in the 1980's, and it is a sharp contrast to the 1970's, when the EC was a major market for U.S. grains.

FOOD SECURITY ACT OF 1985

The Food Security Act of 1985 was designed to help U.S. farmers recapture their share of the world market. It overhauled many farm programs, making them more market-sensitive, and authorized export programs specifically designed to counter unfair trade practices.

Spurred by more competitive policies, a dollar depreciation, and economic growth abroad, U.S. agricultural exports bottomed out in 1986 and have advanced every year since. As the decade came to a close in fiscal 1989, exports reached almost $40 billion, the highest export value since the $43.8 billion record of 1981.

IMPORTANT THAT OUR POLICIES FOR THE 1990'S BE DESIGNED TO ENSURE OUR CONTINUED COMPETITIVENESS IN THE WORLD MARKET

It is important that our policies for the 1990's be designed to ensure our continued competitiveness in the world market.

TWO MAJOR FARM POLICY FACTORS INFLUENCING THE U.S. POSITION IN WORLD AGRICULTURAL MARKETS

As we begin into the 1990's, two major farm policy factors influencing the U.S. position in world agricultural markets will be the 1990 farm bill and the Uruguay round of multilateral trade negotiations.

EXPORT PROGRAMS

Combining effective export programs with appropriate domestic policy actions will help to sustain the renewed growth in U.S. agricultural exports during the 1990's.

As I mentioned earlier, among the primary objectives of the Food Security Act of 1985 were restoring U.S. agricultural export competitiveness and regaining overseas markets for our farm products. By providing for more market-oriented domestic farm programs and by authorizing and expanding various export authorities of the Department, the 1985 act has been very successful in meeting these objectives.

The administration's 1990 farm bill proposals for export programs build on the progress which has been achieved since the enactment of the Food Security Act of 1985.

OUR PHILOSOPHY WITH RESPECT TO MANAGEMENT OF THE PROGRAMS

Now, Mr. Chairman, before I discuss these specific proposals, I would like to share with you and members of the committee a couple of thoughts on our philosophy with respect to management of the programs because both you and Senator Lugar appropriately discussed this in your opening comments.

Our first objective is to run the programs with the highest degree of integrity. There can be no compromise of integrity, and we are instilling this throughout the organization.

The second philosophy is to improve the management controls and systems such that the efficiency of the programs are improved and that the effectiveness of the programs are improved, both items that you addressed.

Now we have been fortunate over the time that I have been here to have had the benefit of audits by both GAO and OIG, which have pointed out some of the areas that we need to address. While we have not always agreed to the *n*th degree with the results, we have found the audits to be very helpful and in general have responded to all the issues raised. Our entire staff has been instilled with the philosophy of cooperation with both OIG and GAO. In addition, we constantly discuss among ourselves ways to improve our management. And while we will never be perfect, we are always trying to be better. We have also benefited from questions from Members of Congress and their staff.

We welcome these constructive questions and the interest in our program. It helps us. The efforts we have made to date have resulted in considerable improvement in the management of all of our programs, and I will be glad to discuss those with you and respond to any questions you have on them.

EEP

With respect to programs as we go forward, the administration proposes to continue the conduct of the Export Enhancement Program (EEP) but without mandated program levels or commodity programming requirements.

The EEP has increased U.S. farm exports. It has challenged the unfair trade practices of competitors, and pressured trading partners to negotiate seriously to reduce trade barriers and trade-distorting subsidies which hurt U.S. farmers.

The EEP is an integral part of U.S. trade policy strategy in the Uruguay round of agricultural trade negotiations under the GATT. At the end of the Uruguay round, the EEP program will need to be reassessed.

TEA

The Targeted Export Assistance (TEA) program should also be continued. It has enhanced agricultural exports by promoting U.S. agricultural goods in foreign markets, particularly processed and high-value products. The TEA program will also be reassessed at the end of the Uruguay round.

CCC

The Commodity Credit Corporation (CCC) also operates two export credit guarantee programs—GSM-102 and GSM-103—under authority established by the CCC Charter Act. The Food Security Act of 1985 established a minimum annual program levels of $5 billion for GSM-102 short-term guarantees and a maximum annual program level for GSM-103 intermediate-term credit guarantees of $1 billion for 1989 and 1990. The administration proposes that these program levels be continued.

These export credit guarantee programs have helped to stimulate U.S. exports by assuring the availability of financing to foreign

purchasers of U.S. agricultural commodities. The programs operate where credit is necessary to maintain U.S. exports to a foreign market and where private financial institutions would be reluctant to provide financing without a guarantee from the government.

PUBLIC LAW 480 AND FOOD FOR PROGRESS PROGRAM

Several U.S. foreign food aid programs, including Public Law 480 and the Food for Progress Program, should be reauthorized in the 1990 farm bill. And we will have a proposal forwarded to Congress in the near future. And I want to say at this point, Mr. Chairman, your staff has been very cooperative and supportive in the efforts that we have been making in this effort, and we appreciate their cooperation and support on this Public Law 480 revision effort.

THE FOOD SECURITY WHEAT RESERVE

The Food Security Wheat Reserve was established by the Food Security Wheat Reserve Act of 1980 which authorized up to 4 million metric tons of wheat to be placed in the reserve to be used to provide emergency humanitarian relief when supplies are tight. We propose that this be continued.

TRADE POLICY THEMES

Overall, the basic trade policy themes of the administration's farm bill proposal are increasing market orientation and improving U.S. competitiveness in the international marketplace. The proposal emphasizes production flexibility to allow farmers to respond more readily to market forces in making production and marketing decisions. U.S. agriculture must be able to respond to new opportunities in domestic and world markets if it is to grow and prosper in the 1990's.

The U.S. comprehensive proposal for long-term multilateral agricultural trade reform submitted to the GATT is designed to guide world agricultural trade and production toward a market-oriented system. We propose reform to improve market access, to substantially and progressively reduce trade-distorting subsidies, and to base health and sanitary regulations on sound scientific evidence. These reforms called for in the U.S. GATT proposal would permit countries to maintain income support and other programs for farmers that do not distort trade.

The dominant issue in both multilateral trade negotiations and the 1990 farm bill is the same—a stronger agricultural economy for America. Our farm bill proposals, which combine increased production responsiveness, aggressive export assistance targeted at unfair competition, market-oriented loan and storage programs, and greater research funding should signal to our competitors the resolve we have to compete in world markets.

Mr. Chairman, that concludes my statement, and I will be glad to address the questions of you and the committee.

[The prepared statement of Dr. Crowder follows:]

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Statement by Richard T. Crowder
Under Secretary for
International Affairs and Commodity Programs
U.S. Department of Agriculture
Before the
Senate Committee on Agriculture, Nutrition and Forestry
February 21, 1990

Mr. Chairman and members of the Committee, I appreciate the opportunity to come before you to discuss U.S. agricultural trade and the Administration's 1990 Farm Bill proposals.

As we begin a new decade, it is an appropriate time to retrace the major events of the 1980s that altered the face of agricultural trade and to look at emerging trends.

The 1980s opened in the midst of the greatest boom on record for U.S. agricultural trade. Agricultural exports reached an all-time volume high of 164 million tons in 1980 and hit a value peak of nearly $44 billion the following year.

This export success was an outgrowth of the sharp acceleration in world demand--especially from developing countries--during the 1970s. The increase also was facilitated by lenient credit policies of major world lenders to help cash-poor countries finance imports.

Unfortunately, the export boom was sidetracked by a major worldwide economic recession in the early 1980s. Agricultural trade began to shrink reversing the upward trend of the three previous decades.

Stringent monetary policies were established at the onset of the 1980s to curb high U.S. inflation rates experienced throughout the 1970s. These tight-money policies pushed U.S. real interest rates to record levels and made the U.S. dollar a better investment. There was a sharp appreciation in the value of the U.S. dollar relative to currencies of major trading

partners. As a result, U.S. farm commodities became more expensive for foreign customers.

In addition, U.S. price support loan rates in the early 1980s were set at rigid, high levels that were consistently above market clearing levels for many commodities.

High loan rates and an appreciating dollar combined to form a protective price umbrella under which our competitors could expand production and sell their surpluses on the world market at the expense of the United States.

During this same period, the rising cost of borrowed money in the United States and other major industrialized countries was weakening the economies of debt-strapped developing countries. The high real interest rates increased debt loads for these countries and squeezed hard currency reserves and disposable incomes. This, in turn, had a negative impact on agricultural food import demand.

At the same time, the European Community (EC) became a fierce U.S. competitor in world commodity markets, especially for grain, in marked contrast to the 1970s, when the EC was a major market for U.S. grains. In addition, other traditionally large grain importers, such as China and India, became net exporters in the early 1980s.

The Food Security Act of 1985 was designed to help U.S. farmers recapture their share of the world market. It overhauled many farm programs, making them more market-sensitive, and authorized export programs specifically designed to counter unfair foreign trade practices.

The year 1985 was a turning point for agriculture on the macroeconomic front as well. During the first quarter of 1985, the U.S. dollar reached its peak and began to depreciate against the currencies of major trading partners. In effect, this lowered the price of U.S. farm products in foreign markets.

Taken together, the new, more market-oriented farm legislation and the lower valued dollar sharpened the competitive edge of U.S. exporters in the world market in the years that followed.

Spurred by more competitive policies, dollar depreciation, and economic growth abroad, U.S. agricultural exports bottomed out in 1986 and have advanced every year since. As the decade came to a close in fiscal 1989, exports reached $39.7 billion, the highest export value since the $43.8 billion record of 1981. However, it has not been a return to business as usual.

There have been shifts in the markets for U.S. agricultural goods. Asia replaced Western Europe as the leading regional market for U.S. agricultural products in 1979. Since then, the percentage of total U.S. agricultural exports shipped to Asia has steadily increased--from 32 percent, $12.8 billion, in fiscal 1980, to 41 percent, $16.4 billion in fiscal 1989.

This trend will continue to influence agricultural trade in the 1990s. The Pacific Rim countries have experienced rapid industrialization and high-income growth in the 1980s. Japan, South Korea, and Taiwan are leading prospects for continued growth, provided that market access is improved.

These same countries also are expected to continue to shift the amount and the types of agricultural products they import. They are buying a broader product mix, and purchasing more of both traditional staple commodities and processed and high-value products such as livestock, dairy, poultry and horticultural products.

Rapid population growth in developing countries translates into a growing need for food in these nations. Provided they can improve their economies to the point where they can import more import food items, the sheer mass of consumers will provide tremendous market opportunities for major food exporters such as the United States. Bulk commodities such as grains and oilseeds appear to have the best growth prospects for this group of countries.

Sweeping changes in the Eastern Bloc could break the erratic patterns of farm product purchases there and result in more stable demand patterns in the 1990s. While it is difficult to project immediate changes as events continue to unfold so quickly in Eastern Europe, we would see market opportunities in a variety of areas as the countries privatize their economies and these economies continue to grow. In particular, all of these countries are likely to need increased imports of high protein feeds.

Changes in U.S. farm programs and polices and developments in international markets will provide new opportunities and obstacles for U.S. exports over the next several years. The opportunities are marked by the rapid economic growth in the Pacific Rim countries, market-oriented farm programs that enhance U.S. competitiveness, a favorable exchange rates for U.S. exports, the emerging free market forces in Eastern Europe, and U.S. export programs. Some of the obstacles include overly stimulative farm

programs in many countries, such as the EC's Common Agricultural Policy, export subsidies by competitors, and foreign debt problems in developing countries which inhibit their purchases of U.S. products.

As we began into 1990's, two major policy factors influencing the U.S. position in world agricultural markets will be the 1990 Farm Bill and the Uruguay Round of multilateral trade negotiations.

Combining effective export programs with appropriate domestic policy actions with help to sustain the reneved growth in U.S. agricultural exports during the 1990s. No one should expect to march the record growth rates of the 1970's -- almost 20 percent per annum -- but we do feel future increases can far exceed the export growth of the past 5 years.

As I mentioned, among the primary objectives of the Food Security Act of 1985 were restoring U.S. agricultural export competitiveness and regaining overseas markets for our farm products. By providing for more market-oriented domestic farm programs and by authorizing and expanding various export authorities of the Department, the 1985 Act has been very successful in meeting these objectives.

The Administration's 1990 Farm Bill proposals for export programs build on the progress which has been achieved since enactment of the Food Security Act of 1985.

The Administration proposes to continue the conduct of the Export Enhancement Program (EEP) but without mandated program levels or commodity programming requirements.

The EEP encourages the export of U.S. agricultural commodities in targeted markets by making the prices of such commodities competitive with the subsidized exports of other countries. EEP has increased U.S. farm exports, challenged the unfair trade practices of competitors, and pressured trading partners to negotiate seriously to reduce trade barriers and trade-distorting subsidies which hurt U.S. farmers. Through the end of fiscal year 1989, about $2.5 billion of commodity bonuses were made available under the EEP which facilitated the sale of $8.5 billion of agricultural products to 65 countries.

The EEP is an integral part of the U.S. trade policy strategy in the Uruguay Round of agricultural trade negotiations under the GATT. Among other actions taken by under the Food Security Act of 1985, the EEP program has put substantial pressure on the EC by making it more difficult and costly to operate their export subsidy programs and has strengthened the U.S. negotiating position. The EEP program will likely need to be reassessed at the end of the Uruguay Round.

The Targeted Export Assistance (TEA) program should also be continued. It has enhanced agricultural exports by promoting U.S. agricultural goods in foreign markets, particularly processed and high-value products. The USDA proposal for the TEA program includes an authorization for a maximum program level of $200 million annually. The TEA program will also be reassessed at the end of the Uruguay Round.

The Commodity Credit Corporation (CCC) also operates two export credit guarantee programs -- GSM-102 and GSM-103 -- under authority established by the CCC Charter Act. The Food Security Act of 1985 established a minimum

annual program level of $5 billion for GSM-102 short-term guarantees and a maximum annual program level for GSM-103 intermediate-term credit guarantees of $1 billion for 1989 and 1990. The Administration proposes that these program levels authorizations be continued.

These export credit guarantee programs have helped to stimulate U.S. exports by assuring the availability of financing to foreign purchasers of U.S. agricultural commodities. The programs operate where credit is necessary to maintain and increase U.S. exports to a foreign market and where private financial institutions would be reluctant to provide financing without a guarantee from the government. In fiscal year 1989, 26 different country programs were announced, with total registered sales of approximately $5.2 billion.

Several U.S. foreign food aid programs, including Public Law 480 and the Food for Progress Program, should be reauthorized in the 1990 Farm Bill.

Among the major issues currently being revieved are the need to be more responsive to recipients' financial problems as well as their need for the timely arrival of agricultural commodities. A second area of major concern is how to best focus P.L. 480 on significant developmental benefits and how local currency proceeds can best be used to attain such benefits in recipient countries. Additional ways to promote private sector growth in the recipient countries are also being revieved. The Administration's position on the foreign food aid programs will be forwarded to Congress in the near future.

The Food Security Wheat Reserve was established by the Food Security Wheat Reserve Act of 1980 which authorized up to 4 million metric tons of wheat to be placed in the reserve to be used to provide emergency humanitarian

relief when supplies are tight. Further, of the 4 million tons, up to 300,000 tons can be used in any fiscal year, without regard to the domestic supply situation, to provide urgent humanitarian relief in any developing country suffering a major disaster when the wheat cannot be programmed for such purposes under normal procedures.

The first use of the reserve was to help meet the famine needs of Africa in the mid-1980s, when 300,000 tons were released in response to an emergency need. In this context, the Reserve met an urgent food need when all P.L. 480 funds had been committed and additional funding could not be made available in time to meet the emergency.

The Reserve has also been used twice to assure continuity of U.S. food aid under P.L. 480, first in fiscal year 1989 and again this fiscal year. Up to 3.5 million tons (1.5 million tons in 1989 and up to 2 million tons in 1990) have been released by the President from the Reserve in response to a limited availability of wheat for P.L. 480 programming.

The Administration is proposing that replenishment authority for the Reserve be extended.

Overall, the basic trade policy themes of the Administration's farm bill proposal are increasing market orientation and improving U.S. competitiveness in the international marketplace. The proposal emphasizes production flexibility to allow farmers to respond more readily to market forces in making production and marketing decisions. U.S. agriculture must be able to respond to new opportunities in domestic and world markets if it is to grow and prosper in the 1990s.

The proposals for increased production and marketing flexibility, aggressive export assistance programs, and increased research will strengthen our GATT negotiating leverage by emphasizing our resolve to compete in the global market.

The 1990 Farm Bill should be completed this summer before winter wheat producers plant their 1991 crop. Uruguay Round negotiations are scheduled for conclusion in December. These are significant parallel events, but the U.S. farm bill will be written in Washington, not Geneva. When the Uruguay Round is complete, we will submit to Congress whatever implementing language may be necessary.

The U.S. comprehensive proposal for long-term multilateral agricultural trade reform submitted in the GATT is designed to guide world agricultural trade and production toward a market-oriented system. We propose reform to improve market access, to substantially and progressively reduce trade-distorting subsidies, and to base health and sanitary regulations on sound scientific evidence. The reforms called for in the U.S. GATT proposal would permit countries to maintain income support and other programs for farmers that do not distort trade.

As the world's major agricultural exporter, changes in agricultural trading rules will obviously affect the United States--and we intend to do everything in our power to make sure these changes are for the better.

The dominant issue in both the multilateral trade negotiations and the 1990 farm bill is the same--a stronger agricultural economy for America. Our farm bill proposals, which combine increased production responsiveness, aggressive export assistance targeted at unfair competition, market-oriented

loan and storage programs, and greater research funding should signal to our competitors the resolve we have to compete in world markets.

That concludes my statement, Mr. Chairman, I would be happy to address your questions and those of the Committee.

The CHAIRMAN. Thank you very much. I do have a number of questions. I will go through some first, then yield. I know several Members will have to leave for Mr. Havel's joint address.

You know that I have made inquiries of this nature with the Department over the past few months. My understanding there is evidence of massive bank fraud on the part of Banca Nazionale del Lavoro in Atlanta, Georgia. It is a branch bank of an Italian bank that holds many loans guaranteed by the Commodity Credit Corporation. Senator Lugar and I have discussed this issue with the Secretary. We have cited a number of concerns we have on it.

Now, despite requests to be informed immediately of all activity relating to Banca Nazionale del Lavoro, we were not informed of recent problems with repayments from Iraq to the bank until we specifically asked about them from the Department. I am concerned that I heard about these problems from outside, totally private sources, when I expected to hear about them first from the Department. Of course, that raises my concern whether I would have heard about these problems at all had I not heard from these private sources.

I recently wrote the Secretary again, stating the need for prompt information concerning this case. I received a detailed response late last evening from him, a copy of which, incidentally, I put in each Member's folder. It came in late last night, and it is several pages long. My first question is this: why was the committee not informed immediately after Iraq's credit line was shut down this January? And secondly, what is the status of the outstanding debt of Iraq guaranteed by the Commodity Credit Corporation through the Banca Nazionale del Lavoro or any other institution?

Dr. CROWDER. I will take it in two parts. The first in terms of being informed immediately. In the letter that the Secretary sent to you, it was our interpretation that technical matters and things that occur not on a regular basis would not be a part of usual reporting. This would include such matters as the technical transfer of funds not getting made so that the credit payment has not been received. This happens for some banks not only in the case of Iraq or Banca Nazionale del Lavoro. It happens in a number of cases because of funds transfers. We treated this as a routine matter, as was indicated in the Secretary's letter to you. When we were informed that the payments had not arrived, we made contact; in one case, within 2 days the payment was there. The line was reestablished. And then in another case, within a matter of a few days the payment was there again and it was reestablished. The line of credit is current and open as of today. We will, if you would like, be more than glad to share this information with you if it happens again.

The CHAIRMAN. When you say it is current and all, and I appreciate that, but this is one that we have had a particular concern about. I hear Director Darman talking about unfunded liabilities to the Federal Government, and what a ticking time bomb this is, and I think in some areas he may be right. But am I correct when I say that there is about $700 million worth of loans that CCC has guaranteed involving Iraq? Is that the ballpark figure?

Dr. CROWDER. About $700 million?

The CHAIRMAN. Yes.

Dr. CROWDER. No. It is a larger number than that. Iraq's outstanding line right now is about $2.1 billion.

The CHAIRMAN. No, no. I am talking about loans to the bank.

Dr. CROWDER. Banca Nazionale del Lavoro?

The CHAIRMAN. Yes, the Banca Nazionale del Lavoro. Is that about $700 million?

Dr. CROWDER. It is about $530 million right now. It is coming down, and I think it is about $530 million as of last Friday or today.

The CHAIRMAN. And overall with Iraq, how much have we guaranteed?

Dr. CROWDER. About $2.1 to $2.2 billion.

The CHAIRMAN. I just want to make sure that we are not getting caught in some kind of a squeeze. We get the Office of Management and Budget complaining about unfunded liabilities on the one hand. I assume that you are getting some pressure, either from the State Department or elsewhere, within the administration to loan money to Iraq? Or is this just an internal decision made simply by the Department of Agriculture?

Dr. CROWDER. Let me say a couple of things to put things in perspective here. First, as I indicated in my testimony, we are mandated by the Food Security Act of 1985 to allocate up to $5 billion, not up to, a minimum of $5 billion for the purpose of enhancing exports. So we start with——

The CHAIRMAN. What do you mean "up to a minimum"? How do you go up to a minimum?

Dr. CROWDER. I misspoke when I said "up to."

The CHAIRMAN. OK.

Dr. CROWDER. It is a minimum of $5 billion. So we start with that premise. With respect to Iraq or any other country, the review process is that we make proposals and then it goes through an interagency process, the National Advisory Committee on International Monetary Funding and so forth. So it is approved there. So we do not make a unilateral decision. We make recommendations in terms of what should be funded, and then we sent it though the NAC process for approval. We are not getting undue pressure from anyone on either side, either for Iraq or for anyone else at this time. If we did not agree with it, we would not recommend it. If we thought it was appropriate, we would recommend it.

The CHAIRMAN. Well, let me ask you about that because as I understand it, the Export-Import Bank does not consider Iraq a very good credit risk. I guess they provide Iraq loans for a year, only for a 1 year period. Through CCC, they get 3 year loan guarantees. Is there a different criteria used for CCC selection than for Ex-Im Bank?

Dr. CROWDER. Well, I think that we do have criteria. I am not completely familiar with the Export-Import Bank, but first of all, as I indicated in the opening comments, the $5 billion is to be allocated to those countries who are having difficulty or could not get it some other way, or we could not export the items without the credit. So there is some basic additional risk involved to start with to these items. We do prepare assessments of the countries economic and political risk. We do reviews of the banks financial condi-

tions, and the allocations we make are consistent with those reviews.

The CHAIRMAN. Well, I think that is probably where I have questions. Let us go through some of the reviews on picking out a country. What kind of a repayment record does Iraq have?

Dr. CROWDER. Iraq has an excellent repayment record. Except for a couple of technical transfer issues such as we had the first part of this year, we have not had any problem with Iraq in the GSM program.

The CHAIRMAN. Now that is to you on CCC guaranteed loans. Do you know what their record is on other loans, other banks, other types of commodities, other types of trade?

Dr. CROWDER. Iraq has, to my understanding, and I cannot cite you a specific bank, been delinquent on some payments to other creditors. How much that is and to whom they are involved, I do not know.

The CHAIRMAN. There have been rumors, as you know, of the possible improper diversion of commodities by Iraq. Have you looked into that at all? Has the Department looked into that or do they just look into whether the CCC guarantees are paid in full?

Dr. CROWDER. Well, we have audited some of the exporters' records, not 100 percent, but probably—I do not know—25, 30 percent, maybe even more of the records with Iraq in terms of the shipping and found nothing that would lead us to conclude that there have been diversions, based on the evidence that we have.

The CHAIRMAN. You found no misuse of the program by Iraq?

Dr. CROWDER. No, sir, we have not.

The CHAIRMAN. What about by the bank, Banca Nazionale del Lavoro?

Dr. CROWDER. We have not been involved in the investigation of the bank. There is a criminal investigation ongoing concerning the bank, the banking issue is being handled by banking authorities and not by our people.

The CHAIRMAN. But if there is an investigation of the bank underway, to the extent that they may be involved in CCC guarantees, would you not be kept abreast of that investigation or is that bank now totally closed off from any involvement by you?

Dr. CROWDER. The bank in Atlanta is not participating in any guarantees at this time.

The CHAIRMAN. Well, are they apt to be in the future; do you know?

Dr. CROWDER. They have indicated to us that they have no interest in further participation.

The CHAIRMAN. So they are completely out of the program at this point?

Dr. CROWDER. They are not completely out. There is still the $531 million of guarantees to the Banca Nazionale del Lavoro in Atlanta.

The CHAIRMAN. And with a half a billion dollars' worth of guarantees floating out there, do you not feel the Department ought to be kept apprised of whatever this investigation is of the bank?

Dr. CROWDER. Well, a couple things in response to that. The guarantee that the Department has made is for payment by the Bank of Rafidain in Iraq. We have guaranteed those payments, and

as long as those payments are made to Banca Nazionale del Lavoro then our exposure goes down from Iraq. We do not have an exposure with BNL. The second point I would make with respect to this is that last September when the first reports first began to surface, with respect to banking issues, bank fraud issues and so forth, at Banca Nazionale del Lavoro, our OIG has been participating with the Department of Justice in the investigation to determine if there were any improprieties of the program with respect to the use of CCC funds.

In addition to that, we have had our own attorneys reviewing evidence and documents and so forth to determine if there has been any improprieties at all.

The CHAIRMAN. Well, my time has expired. I want to yield to Senator Lugar. But I am going to want to come back to the whole criteria of country allocations and how you determine those allocations, and I am especially concerned with Iraq. Well, I have a number of issues on that, and I will wait till my next turn.

Dr. CROWDER. That is fine.

The CHAIRMAN. Senator Lugar.

Senator LUGAR. Thank you very much, Mr. Chairman. Mr. Crowder, in the testimony that we will receive from the GAO on the subject today, on page 4 of their testimony they say, "Although in its early years the EEP increased the cost of subsidies for the European Community (EC), it has neither deterred the EC from using subsidies nor hurt its share of the world market." GAO goes on to say "EEP has been instrumental in bringing the EC to the negotiating table," and they recommend continuing this as a trade policy tool until agreements are reached on agricultural subsidies, but they point out that while we are attempting to gain the attention of the Europeans, we have hurt our friends in Australia, Argentina, Canada, others with whom we are in alliance in the Uruguay round. Furthermore, GAO goes on to say that the "administration of EEP is a complex and cumbersome process."

They cite that it is simply very difficult to document why price and bonus calculations were reached in many cases. Elsewhere in testimony today, it appears that maybe as much as $8.5 billion worth of exports have been made under the Targeted Export Enhancement Program, and $2.5 billion of subsidy or bonus was offered, which would approximate maybe 30 percent of the cost of those exports. Let me just ask as an overall question, how many countries—are as many as 65 countries—involved in this program? Is it fair to say that about 30 percent of the cost of that is borne by the taxpayers presently in order to try to gain the attention of the Europeans or trade competitors?

Dr. CROWDER. Let me try to address as many of those as I recall. If I forget some, you can come back to me. Let us start first with the market share issue. What has happened under the EEP program is that our share has, in fact, gone up. The EC's share has basically, I think if you look—I know the time period basically—stayed constant, and I am recalling numbers, and there has been some slippage in the share of particularly Australia. I think that was a result of prices for some competing crops. Australia not only had a better opportunity for production other than wheat, but also

the EC continued to spend and decided that they were going to maintain their share.

So they continued to spend to maintain their share. With respect to the targeting issue in terms of countries, up to 65 countries have received commodities, have bought commodities under the EEP. The targeting definition is not based on the number of countries that an item goes to. The targeting definition is based on whether the EC sell into that country, whether we are competing with the EC and whether we are displacing EC sales. So as long as the EC is selling there, we will provide export bonuses for commodities there.

In terms of the $2.5 billion out of the $8.5 billion number that you cited there, a couple of points to be made there. A lot of that figure was due to large bonuses made very early on in the program. Bonuses in recent years have not been as high in terms of a percentage of the price as they were when we first began the program, at least to the best of my recollection.

Senator LUGAR. What are the percentages now?

Dr. CROWDER. Well, it depends on the commodity, but we have had bonuses on wheat this year that have ranged from $6 to $8 a ton up to around $20 a ton on $140 market. So it is not likely the 30 percent number that we were talking about over the life of the program. Bonuses for some commodities are larger than for others. In addition, some of the early years in there we had some bonuses that were bigger than the cost of the basic product. Dairy cattle is one example, and we no longer sell or support dairy cattle under this item.

And the second point I would make in response to your question is with respect to the cost to the taxpayers. Studies that we have done internally and studies working with OMB and others have concluded that over the life of the program—and at least through last summer—that because of the impact on price, carrying charges and stocks and so forth, that with respect to wheat, the program has basically been budget neutral.

Senator LUGAR. Budget neutral?

Dr. CROWDER. Budget neutral.

Senator LUGAR. How could this be? If $2.5 billion goes out, what came in? Why is there a benefit?

Dr. CROWDER. Two things. Targeted deficiency payments were not as high because of the price effect on domestic markets, and secondly, storage costs were reduced also.

Senator LUGAR. Well, let me just ask just one follow up on that. As these sales are made, and this may be my inattention, but does the Department share with the committee the going rate for how much discount you are giving; how much bonus? Is this a matter of public information or——

Dr. CROWDER. Yes, yes, it is. For every initiative or every sale that is made a news release is released by the Department of Agriculture that says what the sales price is and what the bonus amount is. There is a news release that goes out with every sale.

Senator LUGAR. So essentially you do this given what the EC's prices are, and you have testified that the EC is in as many as 65 markets, 65 countries. So we are in as many as 65 countries following them, and that we are attempting to reign in still the EC and they are paying out more, but the effect, as GAO has said, is that

we have hurt Australia and some people who are involved in more of a free trade pattern. The EC has maintained its share apparently throughout all of this. Is your judgment that this is an effective strategy for the United States to pursue at the expense of others that are attempting to work with us in free trade, or is your judgment that we have no other choice, or why do you support the continuation of the program?

Dr. CROWDER. We support the continuation of the program not because it is easy to administer or that it is fun to administer, but as we reviewed the EEP program last year—and we made a complete review after I came on last year—we focused the objectives primarily on trade policy. And we think that it is an important trade policy tool. Our feedback from the EC tells us that despite what they are doing in terms of spending and trying to maintain market share that EEP is effective. And I am not sure if it was in the testimony this time, but I think that I read one time in a GAO report that the GAO also concludes that the EEP is an effective and important trade policy tool. And that is the focus of what we are trying to do now.

Senator LUGAR. So hopefully if you make it expensive enough for them, the pain of continuing to subsidize at this level will cause them to negotiate at the Uruguay round, we hope, or at some point down the——

Dr. CROWDER. Well, it is not just the EEP. I think it is a package that came out of the Food Security Act of 1985 including the more market-oriented loan rates and the EEP program. We finally sent a message to them, and to others, that we did not want to be the residual supplier in the world grain market and have all the shocks, in terms of stocks level and so forth, fall on the United States. And I think that message is getting across.

Senator LUGAR. Now let me approach some of the question that the chairman did in a different way. The GAO report says that when they testified on the GSM program last November before the House Agriculture Subcommittee, they noted a major participating financial institution was embroiled in controversy over unauthorized loans to Iraq. This is the bank that we have been talking about earlier on, and that we had learned about in September.

The repayment of many authorized loans is guaranteed by CCC under the GSM program. In light of circumstances surrounding the controversy, the GAO says we believe that FAS may want to examine the loan exposure of individual financial institutions participating in the program and assess the potential impact on CCC's guarantee liability. Now they got on to the general point, and said "as we have reported"—this is GAO saying this—"our opinion on the financial statements of CCC is qualified because CCC has not established in its financial statements an allowance for the uncollectible portion of outstanding loans to countries experiencing financial difficulties."

They go on to say "we estimate that cumulative losses on such loans as of September 30, 1988, range from $5.6 billion to $8.8 billion on loans outstanding of $16 billion. Also, we estimate additional cumulative losses of $2.3 billion to $3.5 billion on guarantees of outstanding loans to foreign countries amounting to $6 billion." It says "our understanding is that CCC is considering including an al-

lowance for these losses in the fiscal year 1989 financial statements." And the Department of Agriculture is considering recognizing the loss in its consolidated annual report for 1988 due out this spring.

But the point that they make is that they had badgered the U.S. Export-Import Bank for many years to recognize a reserve program. "Last month," they point out, "the Export-Import Bank corrected the problem when it established $4.8 billion reserve to cover possible losses on 40 percent of its outstanding loan guarantees." Now I just simply wonder as a matter of accounting, and we are circling around these situations in each facet of the agricultural picture—whether it is the Farmers Home situation, various other parts of the farm credit affair—but obviously if there are potential losses of this amount on loans outstanding of $16 billion—that is a range of $5.6 billion to $8.8 billion—a third to a half of it all—clearly this ought to be recognized in reports. Furthermore, I am wondering what the budget impact of that is currently?

Is it a situation in which a certain amount of money is in the current budget to begin to amortize this situation, this impact that clearly is going to hit taxpayers if these assets are found to be uncollectible?

Dr. CROWDER. A couple of comments. One, I have asked the CCC people—and they have a draft options paper coming to me now—to look at this issue of reserves. It has historically been the position of the Corporation and Department that we do not reserve and we do not write off. We do not give up. We continue to try to collect over time, and things do dribble in over time. I am not totally familiar with the numbers, but as I heard you read them, they are cumulative losses that have occurred over time over the history of all this. I do not know what the base loan portfolio there is. I do not have those numbers with me.

But this is not a one time thing. It is a cumulative process over time that has developed because we have—and I do not know whether our financial people would agree with the amount of reserves because people will disagree on that. But I do think it is appropriate to review that and we are in the process of doing that right now as GAO has indicated.

Senator LUGAR. Well, would you, in that review then, specifically just in direct answer to this question, try to review loans, let us say, that CCC has made in this export area for the last 10 years?

Dr. CROWDER. Sure.

Senator LUGAR. Maybe you are right that an accumulation of $16 billion of loans is outstanding. It may be from the beginning of the century. But clearly we ought to have some idea in this committee of what kind of losses are being experienced in this area because we already know that we are placing money out in terms of our Targeted Export Assistance. And at least your testimony is perhaps because of the structure of our deficiency payment programs and storage we are getting that back, although that raises other questions, just of agricultural policy all by itself. But with these CCC loans, if we are making loans currently, and a fairly large percentage we are not getting paid and we are not making reserve for it, the situation is sort of bad all around. And we need to get our arms around that, I think, fairly quickly.

Dr. CROWDER. Sure. These are a combination of two things, two principal things: First, the GSM loans, and second, the Public Law 480 loans which are 40-year loans to high credit risk countries. So it is just not the GSM. It is Public Law 480. It is all the loans that are in there that we are addressing so it would be that. But the question is fair and the point is well-taken, and I agree with the thrust of it.

Senator LUGAR. If I might, just a last comment on the Iraq loan.

The CHAIRMAN. Incidentally, if the Senator would just yield, one point there. I think some of those loans also include Poland which has a fairly substantial amount.

Dr. CROWDER. There is $2.4 billion of those loans, $2.4 billion of that is Poland.

The CHAIRMAN. And you add interest all the time, too.

Dr. CROWDER. Yes.

Senator LUGAR. Well, you ought to segregate out these loans that were made for foreign policy purposes, maybe they had nothing to do with agriculture. As it is, as you read these reports, the agriculture credit thing is sort of stuck with the entire tab. I am not certain how you segment the responsibilities in our government. Polish loans, clearly 10 years or so ago, were a roll of the dice with regard to foreign policy, and perhaps we ought to segregate that out as we are taking a look at this.

Dr. CROWDER. Sure. And those data are available.

Senator LUGAR. I suspect too the Iraq loan—and this is just a private judgment about this—but my own understanding is that with regard to the agricultural part of these loans at this bank that is under investigation, those loans were in pretty good shape. That is the agricultural commodity loans seem to have been used properly. The fact is that Iraq had fallen behind in payments to the bank in other ways. And the question is the fungibility of the money.

If you are getting money for agriculture, can it be used for arms, or can it be used for other sorts of purposes which converges into, once again, a foreign policy question. I do not know how Iraq is using the money, but clearly I am sure that is one reason the question is being raised. If you use various windows to get your money and to shift it around, questions will be raised as to whether that is a good idea, and it comes back, I presume to our country's ideas about Iraq presently, what the relationship is.

Dr. CROWDER. I do not know whether Iraq has defaulted on those other loans or not. As I understand it, the thrust of the investigation is that unauthorized loans were made and a "grey-book" was being kept. I do know that, with respect to the CCC loans, that Iraq has been current, and as indicated in the testimony and in the comments we have had, the Banca Nazionale del Lavoro portion has come down from $700 million to $530 million recently. Our concern, Senator Lugar, is if as a result of this whole thing going on, there was misuse, improper use, or abuse of the CCC program—and that is where we are focusing on in terms of our analysis, and will continue to do that. I think that I should also make the point that this is something that we are not giving up, that we are being very persistent in terms of our efforts, our investigations and so forth, and we are going forward with those on a daily basis.

Senator LUGAR. Thank you very much. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. I think on that last part that Senator Lugar was discussing, let me follow up also with a specific question for the record, and it will be along this line. Would you please provide us with a portfolio review that has your estimates by country of outstanding loans covered by the CCC export credit guarantees, CCC loan guarantees and arrears, your expectations about the duration of those arrearages, whether 90 days or less, 90 days more, a year, so on. Because the whole credit guarantee program is extremely critical to American agriculture, as I said at the beginning.

[The response for Senators Leahy and Lugar was subsequently provided and follows:]

CCC EXPORT CREDIT GUARANTEES

Question. Please provide to the committee a portfolio review of your estimates, by country, of outstanding loans covered by Commodity Credit Corporation export credit guarantees; the CCC loan guarantees in arrears, and your expectations about the duration of there arrearages within the following categories: 90 days or less; 90 days to 1 year; 1 year to 2 years; 2 years to 5 years; and more than 5 years.

Answer. The following table provides a list by country of all outstanding loans guaranteed by CCC, and loans which are in arrears because claims have been paid by CCC under the guarantee programs but not yet repaid or rescheduled.

[Millions of dollars]

	Loan guarantees	Claims paid
Algeria	$0.9	
Bangladesh	58.6	
Brazil	39.6	
Chile	39.9	
Colombia	12.7	
Dominican Republic	0	$32.1
Ecuador	114.2	
Egypt	347.3	
El Salvador	18.5	
Guatemala	8.2	
Honduras	12.5	4.7
Hungary	11.5	
Iraq	1,280.3	
Jamaica	15.5	
Jordan	27.0	
Korea	472.4	
Mexico	1,579.9	
Morocco	190.9	
Nigeria	0	
Pakistan	178.7	
Peru	0	96.5
Portugal	1.0	
Trinidad and Tobago	6.8	
Tunisia	77.2	
Turkey	51.3	
Venezuela	9.3	
Yemen	40.1	
Yugoslavia	17.7	
Zanzibar	2.0	2.0
Total	4,614.0	135.3

Under ongoing programs, payments to U.S. banks from foreign countries on loans guaranteed by CCC are current for all countries except for Honduras and Zanzibar. In each case CCC has paid claims to U.S. banks in the amounts shown on the table. Also, Peru and the Dominican Republic are in arrears in the amounts shown for claims paid previously by CCC on their behalf, although they do not currently participate in CCC export guarantee programs. It is difficult to speculate as to when and if a rescheduling will occur on these countries. However, no reschedulings are anticipated in the near future.

Jamaica is also in arrears in its payments to U.S. banks. CCC has recently received numerous notices of default on Jamaica and currently has on hand approximately $3.7 million in claims to be paid to U.S. banks. The Foreign Agricultural Service is working directly with the Jamaicans in hopes of avoiding any future claims, and we hope to have a reconciliation within 90 days.

The CHAIRMAN. What I am concerned about is that the integrity of the program be preserved. If the integrity comes into question then the whole program will, and I know how the legislative process works. It is going to be badly damaged and American agriculture is going to be badly damaged. Incidentally, you would have no objection, or the Department would have no objection if we released the letter that has been given to each member of this committee, would you, that came from the Secretary last night?

Dr. CROWDER. Let me ask the General Counsel on that.

The CHAIRMAN. It was not marked confidential or anything. That is why I asked.

Mr. RAUL. No, it is not a classified document, Mr. Chairman. But it was an effort on the part of the Department to provide substantial background information to the committee, and I think given the pendency of the ongoing investigations, including criminal investigations, it would be more appropriate at this time if we could provide that information directly to the committee and not publish it.

The CHAIRMAN. Senator Gorton.

Senator GORTON. Mr. Crowder, I want to ask what may be the reverse side of the coin of Senator Lugar's question. Can you outline for me here orally and can you provide the committee more specific information in writing as to what these three export enhancement programs, if we can divide them broadly, are faced with in the nature of competition from competing agricultural exporters? What kinds of programs and at what levels comparable to our $200 million, $900 million, is the EEC subsidizing exports? And are there programs similar to these of ours in Canada, Australia or any other major agricultural exporting nations?

Dr. CROWDER. In terms of the numbers and so forth, I would like to provide those to you but I just do not have the numbers on the top of my head. The EC is obviously the primary culprit in this whole process. It is not so true in Canada, in Australia. One concern we do have with Canada, and that is the transparency of their pricing system with the Canadian Wheat Board. We would like to see more transparency in their pricing. But we will be glad to provide you with a summary of existing export subsidy programs and a table outlining credit programs in the major agricultural exporting nations.

[The requested information was subsequently provided for the record and follows:]

The EC grants export subsidies (restitutions) on a wide range of agricultural products including wheat, flour, beef, dairy products, poultry, and certain fruits as well as some manufactured products such as pasta. Payments are nominally based on the difference between the internal EC price and the "world price". In fact, the subsidy is usually the difference between the EC internal price and the lovest price competing exporters offer.

VALUE OF EC EXPORT RESTITUTIONS FOR ALL COMMODITIES 1980 - 1988

-- Million US$ --

1980	1981	1982	1983	1984	1985	1986	1987	1988	TOTAL
8,421	5,581	4,668	4,825	4,911	5,027	7,115	10,492	11,262	62,302

Canada, Australia, New Zealand, Argentina and Brazil do not administer direct subsidy programs for their agricultural exports. However, for a number of agricultural products, Argentina and Brazil have instituted a tax differential between the processed good and the rav material which has favored exports. In addition, through the Western Grain Transportation Act, the government of Canada subsidizes approximately 80 percent of the total cost of domestic grain transportation for shipments traveling in provinces west of Thunder Bay, Ontario, which serves to lower export prices at western ports. Moreover, under the Free Trade Agreement (FTA), Canadian government entities are not allowed to export products to the U.S. at a price that is below the cost of acquisition. The FTA Statement of Administrative Action requires the U.S. to pursue consultations with Canada directed at establishing a method to determine the price at which the Canadian Wheat Board (CWB) sells goods to the United States. The CWB operates a closed system with respect to export prices, making Canada's compliance with the provision difficult to discern. Representatives of Agriculture Canada and USDA have met to discuss CWB price transparency, however, to date there has been no movement on this issue.

MAJOR EXPORT CREDIT PROGRAMS

COUNTRY	EXPORT CREDIT AGENCY	MAXIMUM CREDIT TERMS	COVERAGE	DOWNPAYMENT	PREMIUM	PREMIUM DIFFERENTIATION	INTEREST DIFFERENTIATION	EXCHANGE RISK COVERAGE	VALUE OF 1980 EXPORTS COVERED
U.S.	GSM-102	3 yrs.	98% + 4.5% interest	none	0.15 - 0.67%	cif/caf on matching basis	none	none	$4.1 billion
	GSM-103	10 yrs.	98% + 80% interest	none	1.5 - 2.67%	cif/caf on matching basis	none.	none	$0.5 billion
France	COFACE	10 yrs.	up to 100%	none	0.67 - 2.67%	cif/caf french flag	available	available	$4.3 billion
	BFCE + French Govt 1/	—	—	—	--	—	available	—	n.a.
Australia	Australian Wheat Board/EFIC	3 yrs. +	100% political up to 100% commercial	none	2.26 - 2.75%	none	none	none	$2.5 billion
Canada	Canadian Wheat 1/ Board	3 yrs.	up to 100%	10 - 25 %	none	cif	none	none	$3.4 billion
	Export Development Corporation	3 yrs.	100% political 95% commercial	CA$ 1,000	0.5 - 1.5%	none	none	none	$0.25 billion
U.K.	ECGD	2 yrs.	up to 95%	none short 15% 2-3 yrs.	0.5-1.5% short 1 - 3% 2-3 yrs.	none	none	none	
Nether-lands	NCM	2 yrs.	95%	none	1.5%-5% 180-day higher for 2 yr.	c.i.f.	none	none	$260 million
Italy	SACE	2 yrs. +	90%	15% + $75	1.6% to 5.6%	none	none	available	$116 million
	Mediocredito 1/	over 10 yrs.	85%	variable	variable	none	available	none	
Austria	OKB	360-day	100% political 90% to 100% commercial	none	0.5 %	none	none	none	
Belgium	BMD	360-day	99%	none	up to 2%	none	none	none	
	COBAC	5 yrs.	85%	none	0.4% to 2.0% annually				

MAJOR EXPORT CREDIT PROGRAMS, CONT.

COUNTRY	AGENCY EXTENDING CREDIT	MAXIMUM CREDIT TERMS	COVERAGE	DOWNPAYMENT	FINANCING	FREIGHT INSURANCE	INTEREST SUBSIDIES	EXCHANGE RISK GUARANTEE	VALUE OF 1966 PROGRAM EXPORTS
Ireland	ICI	180-day	90%	variable	variable	none	none	none	
Portugal	COSEC	short to medium	n.a.	none	0.45% to 0.65%	none	none	none	
Malaysia	ECS	6 mo.s	100% post-shipment 80% pre-shipment	none	none	can be c.i.f.	2.5%-4.0%	none	

1/ Direct Credit and refinancing.

N.B. There is no evidence that Finland, The Federal Republic of Germany, Greece, New Zealand, Norway, South Africa, Spain, Sweden, and Switzerland have credit guarantee programs.

Senator GORTON. Does the EC or do any of these other countries have programs analogous to the one that we have been discussing, guaranteed credit?

Dr. CROWDER. The EC does have, either through the EC or through individual countries, a credit program that competes with ours. It may not be exactly comparable. But they do have a program.

Senator GORTON. Do you have any figures on how much of that credit is in arrears?

Dr. CROWDER. No, I do not.

Senator GORTON. That is not something that——

Dr. CROWDER. I do not have it, and I do not know if it is available. We can check, but I do not know if it is available.

Senator GORTON. All right. If you would give answers to these questions in dollar amounts, it would be most interesting for this Senator, and I suspect the others, to see what is it we are competing against, how much money is involved in these various competing subsidy programs. It will help us judge the effectiveness of our own. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Gorton. Senator Daschle and then Senators Kerrey and Conrad.

Senator DASCHLE. Thank you, Mr. Chairman. Like Senator Gorton, I am trying to evaluate the program in as comprehensive a way as possible in order for us to make some decisions with regard to the next farm bill, and that is the whole purpose of the hearing today. There is a deep-seated skepticism among producers that the value of the program to them is very marginal. I would be interested, first of all, in any assessment that your agency has done with regard to the direct dollar impact this program has had on producers? In other words, are we offsetting the cost of the farm program by a significant degree through the utilization of this program, number one? And number two, does the cost of the Export Enhancement Program or all three trade programs in any way offset the cost of the program through the other farm subsidy mechanisms that we have in place?

In other words, would we be paying more through other forms of direct producer subsidies were it not for these three programs? Has any calculation been done on that?

Dr. CROWDER. Let me take those in turn. One, which was not a question but a statement that I would like to respond to, is your observation about producers' skepticism. I am constantly getting what we call fan mail, or cards and letters, or telephone calls and so forth, from producers of barley, of wheat, of most any other item that is available for EEP saying, we like this program and we want you to do more for us in it. So I am getting a different signal in terms of producers because they all sure call me or write and say, you know——

Senator DASCHLE. Is that the only signal you are getting?

Dr. CROWDER. Yes, that is the one that I am getting from producers in terms of the EEP program. Everywhere I go and talk to producers they tell me that they do not want us to back off of this at all, and we do not intend to.

Senator DASCHLE. How would you answer the skeptical producers that we hear, the skeptical producers who say it looks as if this is

nothing more than a huge handout to the grain exporting companies? Going back to my original question, has some calculation been done——

Dr. CROWDER. Sure. Let me——

Senator DASCHLE [continuing]. Which can in black and white counter that skepticism?

Dr. CROWDER. Sure. There are several things. One, there have been several studies that have been done both in ERS and at some of the universities with respect to this question of additionality, and I think that is a question: are we exporting more as a result of this? And the answer is yes, and those estimates range, depending on what the world supply, demand and stocks condition are at the time, those estimates range anywhere from 5 to 10 to up to 40 percent additionality.

Senator DASCHLE. I am familiar with that argument, but forgive me if I interrupt in the short time we have. But additionality does not necessarily mean increase in profit. I mean we could be selling significant amounts of additional grain at a loss and really not doing ourselves any favors. And that goes back to the skepticism again. Increases in volume do not necessarily translate to an increase in value.

Dr. CROWDER. Let me say two things with respect to that. One, if you export more, other things being equal, the price is going to be higher, and if you export more, produce more, and the price is higher, your profit should be higher. And we have seen that effect throughout the program. Now with respect to your second question, your other part of this, are we paying out more, or are we paying out less——

Senator DASCHLE. Before you go to the second question.

Dr. CROWDER. Sure. Go ahead.

Senator DASCHLE. Could you just for the record, if there are some specific reports that calculate the impact of the EEP program on a producer's income, it would be extremely helpful to me.

Dr. CROWDER. I think we can probably do it more in terms——

Senator DASCHLE. I am not talking about additionality now.

Dr. CROWDER. No, no. I am talking about price.

Senator DASCHLE. Right.

Dr. CROWDER. You have to talk about price and—if you export more at a higher price it——

Senator DASCHLE. That is right.

Dr. CROWDER. We can. We can——

Senator DASCHLE. Can you do that?

Dr. CROWDER. We will try to get that for you, sure.

Senator DASCHLE. Great.

[The requested information was subsequently provided for the record and follows:]

The primary purpose of the EEP over the long-run is to be used as a trade policy tool to encourage the EC to negotiate on its export subsidy program. Another purpose of the program is to expand U.S. exports, consequently most of the research done on the program to date has measured the EEP's role in export expansion and has not isolated the program's effect on export revenues.

The EEP's effect on export revenues to domestic farmers depends on the change in the commercial export price due to the EEP and changes in total export levels. One ERS study measuring the EEP's effect on wheat prices at two points during the program showed wheat prices increasing 1-2 percent as a result of the EEP.

In the absence of research data, one way to estimate the EEP's effect on export earnings is to forecast what the effects on U.S. prices and exports would be if the program were discontinued. For example in the case of wheat, in a crop-year such as this one, where stocks are being drawn down and prices are significantly above loan rates, the primary effect probably would be a decline in U.S. prices. As world prices increased, leading to higher production by competing exporters, future U.S. export opportunities would also decline. When U.S. stocks are high and prices low, an end to EEP would lead to a direct loss in U.S. exports and a subsequent decrease in export earnings.

14-MAR-1990 STATUS OF THE EXPORT ENHANCEMENT PROGRAM

COMMODITY/COUNTRY/ UNIT OF MEASURE	QUANTITY ANNOUNCED	QUANTITY AWARDED		BALANCE
WHEAT (TONS)				
ALGERIA (500-1)	6,200,000	5,903,820		296,180
BANGLADESH (500-68)	900,000	792,500		107,500
BENIN (500-22)	30,000	30,000		0
BRAZIL (513-71)	66,000	66,000		0
BULGARIA (500-82)	350,000	150,000		200,000
BURUNDI (500-94)	10,000	0		10,000
CANARY ISLANDS (500-43)	23,300	23,300		0
CHINA (500-61)	15,200,000	14,894,950		305,050
COLOMBIA (500-70)	700,000	570,000		130,000
EGYPT (500-3)	8,065,250	7,105,250		960,000
FINLAND (500-87)	250,000	146,000		104,000
GERMAN DEMOCRATIC REP. (500-98)	130,000	0		130,000
INDIA (500-97)	3,000,000	2,000,000		1,000,000
IRAQ (500-60)	2,800,000	2,486,450		313,550
JORDAN (500-19)	725,000	715,000		10,000
LEBANON (500-88)	150,000	0		150,000
MEXICO (500-86)	1,400,375	1,376,875		23,500
MOROCCO (500-6)	5,290,000	4,619,250		670,750
NIGERIA (500-62)	500,000	0		500,000
PHILIPPINES (500-15)	2,450,000	2,450,000		0
POLAND (500-58)	2,500,000	1,997,000		503,000
ROMANIA (500-56)	250,000	0		250,000
SENEGAL (500-38)	100,000	100,000		0
SOVIET UNION (500-67)	21,315,000	20,302,050		1,012,950
SRI LANKA (500-32)	1,060,000	810,000		250,000
TUNISIA (500-18)	1,825,000	1,175,000		650,000
TURKEY (500-7)	1,006,600	904,600		102,000
WEST AFRICAN COUNTRIES (512-50)	766,700	627,600		139,100
YEMEN (500-5)	550,000	475,000		75,000
YUGOSLAVIA (500-25)	1,400,000	829,050		570,950
ZAIRE (500-14)	360,000	351,125		8,875
TOTALS	79,373,225	70,900,820		8,472,405
WHEAT FLOUR (TONS)				
BENIN (505-100)	50,000	21,900		28,100
CAMEROON (505-47)	55,000	55,000		0
CENTRAL AFRICAN REP. (505-101)	40,000	20,000		20,000
EGYPT (505-2)	1,950,000	1,543,000		407,000
IRAQ (505-12)	325,000	300,000		25,000
PHILIPPINES (505-9)	50,000	50,000		0
SRI LANKA (505-104)	50,000	25,000		25,000
YEMEN (500-4)	350,000	350,000		0
ZAIRE (505-10)	139,000	94,000		45,000
ZANZIBAR (505-53)	20,000	6,000		14,000
TOTALS	3,029,000	2,464,900		564,100
SEMOLINA (TONS)				
ALGERIA (503-16)	80,000	30,000		50,000
EGYPT (503-42)	23,000	23,000		0
TOTALS	103,000	53,000		50,000
FEED GRAINS [SORG./BRLY.] (TONS)			TYPE	
ALGERIA (504-30)	1,200,000	784,000	BARLEY	416,000

FIGURES DO NOT REFLECT AMENDMENTS

14-MAR-1990 STATUS OF THE EXPORT ENHANCEMENT PROGRAM

COMMODITY/COUNTRY/ UNIT OF MEASURE	QUANTITY ANNOUNCED	QUANTITY AWARDED		BALANCE
BULGARIA (504-83)	150,000	150,000	BARLEY	0
CYPRUS (504-44)	152,000	152,000	BARLEY	0
IRAQ (504-72)	250,000	250,000	BARLEY	0
ISRAEL (504-35)	603,700	601,357	BARLEY	2,343
HUNGARY (504-79)	100,000	0		100,000
JORDAN (504-36)	160,000	160,000	BARLEY	0
POLAND (504-57)	700,000	310,000	SORGHUM	162,000
		228,000	BARLEY	(Either)
ROMANIA (504-46)	200,000	125,000	BARLEY	75,000
SAUDI ARABIA (504-31)	4,776,000	4,273,500	BARLEY	502,500
SWITZERLAND (504-59)	250,000	9,000	SORGHUM	241,000
TUNISIA (504-52)	500,000	345,400	BARLEY	154,600
TURKEY (504-103)	200,000	0	BARLEY	200,000
TOTALS	9,241,700	7,388,257		1,853,443
BARLEY MALT (TONS)				
ALGERIA (507-91)	10,000	3,300		6,700
BRAZIL (507-105)	50,000	0		50,000
BURUNDI (507-89)	15,000	0		15,000
CAMEROON (507-95)	20,000	0		20,000
CENTRAL AMER. COUNTRIES (507-93)	40,000	4,250		35,750
COLOMBIA (507-65)	40,000	40,000		0
IRAQ (507-90)	5,000	5,000		0
NIGERIA (507-13)	100,000	93,464		6,536
PERU (507-96)	20,000	0		20,000
PHILIPPINES (507-48)	60,000	46,000		14,000
VENEZUELA (507-45)	100,000	500		99,500
TOTALS	460,000	192,514		267,486
RICE (TONS)				
JORDAN (509-8)	101,150	101,150		0
TURKEY (509-66)	110,000	90,000		20,000
TOTALS	211,150	191,150		20,000
MIXED POULTRY FEED (TONS)				
YEMEN (510-26)	188,968	188,968		0
FROZEN POULTRY (TONS)				
CANARY ISLANDS (508-63)	8,000	8,000		0
DOMINICAN REPUBLIC (508-49)	3,500	3,500		0
EGYPT (508-11)	79,000	74,000		5,000
GULF COUNTRIES (508-81)	16,000	7,942		8,058
IRAQ (508-55)	100,000	70,000		30,000
SAUDI ARABIA (508-80)	20,000	2,900		17,100
SINGAPORE (508-75)	2,000	371		1,629
WEST AFRICAN COUNTRIES (508-99)	5,000	20		4,980
ZAIRE (508-65)	7,000	0		7,000
TOTALS	240,500	166,733		73,767
VEGETABLE OIL (TONS)				

FIGURES DO NOT REFLECT AMENDMENTS

14-MAR-1990 STATUS OF THE EXPORT ENHANCEMENT PROGRAM

COMMODITY/COUNTRY/ UNIT OF MEASURE	QUANTITY ANNOUNCED	QUANTITY AWARDED		BALANCE
ALGERIA (502-78)	120,000	120,000		0
INDIA (502-37)	325,000	145,000		180,000
MOROCCO (502-77)	120,000	60,000		60,000
TUNISIA (502-76)	120,000	120,000		0
TURKEY (502-92)	80,000	80,000		0
TOTALS	765,000	525,000		240,000
DAIRY CATTLE (HEAD)				
ALGERIA (501-33)	5,000	5,000		0
CANARY ISLANDS (501-40)	2,985	2,985		0
CHINA (501-84)	185	185		0
EGYPT (501-29)	9,681	9,681		0
GULF COUNTRIES (501-51)	1,524	1,524		0
INDONESIA (501-24)	19,500	19,500		0
IRAQ (501-20)	6,028	6,028		0
MOROCCO (501-28)	4,000	4,000		0
SAUDI ARABIA (501-73)	1,870	1,870		0
TUNISIA (501-34)	4,000	4,000		0
TURKEY (501-27)	10,000	10,000		0
TURKEY (501A-27)	5,000	5,000		0
TOTALS	69,773	69,773		0
EGGS (DOZENS)				
DOMINICAN REPUBLIC (506-54)	2,083,333	925,000		1,158,333
HONG KONG (506-39)	7,833,333	7,826,293	WHITE	7,040
	7,833,333	6,822,193	BROWN	1,011,140
IRAQ (506-64)	23,750,000	14,820,902		8,929,098
NEAR EAST COUNTRIES (506-74)	9,166,667	8,100,906		1,065,761
TOTALS	50,666,666	38,495,294		12,171,372

FIGURES DO NOT REFLECT AMENDMENTS

Senator DASCHLE. And the second point, the answer to the second point?

Dr. CROWDER. The second point you asked about, in essence, is the same question as Senator Lugar asked earlier, which is the budget impact question. Should we, are we paying out more here, and could we be using it more effectively somewhere else? The studies that we have done suggested that in the case of wheat—which at the time we made these studies was 80-plus percent of the program, the program was basically budget neutral with respect to its impact on price, reduced target deficiency payments, and on storage costs. And we treat it that way in our budget calculations.

Senator DASCHLE. And you cite as what as your source for that assertion?

Dr. CROWDER. It is an internal study that we have done——

Senator DASCHLE. An internal study?

Dr. CROWDER [continuing]. In the USDA. Yes.

Senator DASCHLE. Can you share that with the committee?

Dr. CROWDER. Sure. I am surprised it is not here.

Senator DASCHLE. Does OMB agree with that?

Dr. CROWDER. Yes, OMB participated in the study with us.

Senator DASCHLE. So they say from a governmental revenue point of view, the EEP program is budget neutral?

Dr. CROWDER. Budget neutral at the time we did the study. That is correct. And I will share the study with you.

[The study is retained in the committee file.]

Senator DASCHLE. Mr. Chairman, I also had a line of questions on grain quality that I think has to be brought up at some point, but in the interest of time I am going to forgo whatever additional questions I might have so the other Senators can ask questions.

The CHAIRMAN. Your questions can certainly be submitted for the record, too.

Senator DASCHLE. I may do that.

Dr. CROWDER. That is fine.

The CHAIRMAN. Senator Kerrey.

Senator KERREY. Secretary Crowder, Secretary Yeutter has said on repeated occasions that he wants Congress to eliminate the ceiling on EEP funding. What evidence have we given you that we want to impose a ceiling on EEP? What constraint have you felt from Congress? Have we attempted in some fashion to limit EEP sales? In fact, my experience with the committee thus far has been just the opposite, that we have been fighting at times with OMB in the early stages of the administration to get EEP sales approved. I wonder where the concern of the Secretary arises from.

Dr. CROWDER. With respect to as a program, I have been criticized in some cases, yes, particularly the management, and we have tried to—and I think have done a good job of strengthening that. Let me address your point as follows. It is a signal—we have not been constrained in terms of dollars by budget by ceilings that have been placed by Congress for budget reasons.

Senator KERREY. Why is the Secretary then asking for Congress to eliminate the ceiling?

Dr. CROWDER. For two reasons:

First, it sends the European Community the signal that we are only willing to compete to a certain level of spending and then we will back off.

Second, the fact that we have been able to operate the program effectively under the ceiling that has been established, does not mean that we cannot and will not run into problems with respect to a ceiling in the future.

As I was discussing a minute ago, we have been very efficient with the use of the funds this year. So while we have not run into a problem with those ceilings to date, again, first it sends a wrong signal; and second it does not mean we will not have a problem in the future. And we would just like to get the ceiling removed because we see it as serving no purpose.

Senator KERREY. With all due respect, the administration's review of the EEP program for 6 months resulted in a suspension of all EEP sales and expenditure of only half of what Congress allowed in that fiscal year. Similarly, a forecasted expenditure last year that was significantly less than the previous year permitted a reconciliation reduction in EEP funding. If you are concerned about signals, Mr. Secretary, it seems to me that the signals that the administration has been sending have been far more negative than any signals that the Congress has been sending.

Furthermore, let me just follow on with a question. You have in your testimony here some statements about the credit sales, the CCC export loan guarantee programs for short and intermediate credit. I am as concerned as Senator Lugar is about the soundness of these sales. In particular, we should make sure that those sales that were done for political reasons or foreign policy reasons, as I believe both Egypt was after Camp David and I believe Poland was, are identified as such. I am concerned that we do that separation because I believe there is going to be great opportunity in both the East bloc and the Soviet Union to extend credit and boost U.S. exports.

I think in general the program has, in fact, worked. The concern that I have, given that I see the potential for increased sales to the East bloc and the Soviet Union, is that the administration has actually asked in its budget that the minimum funding for this program be changed into a maximum. The budget request, in fact, asks that the program level be converted into a ceiling, not a minimum.

Dr. CROWDER. No, the ceiling is on GSM-103, the $1 billion on GSM-103. The GSM-102 is still a minimum. The farm bill proposal is the same as it was, $5 billion minimum on the GSM-102 and the $1 billion ceiling on the GSM-103. We are requesting that to be unchanged.

Senator KERREY. But you are saying that my interpretation is incorrect. That your budget request continues the minimum figure for the short term and continues a maximum for the intermediate?

Dr. CROWDER. Yes.

Senator KERREY. It is my understanding the budget request was, in fact, was to cap the program.

Dr. CROWDER. I will have to check the budget request. But I am sure the budget request is consistent with what we call the green book now, and the green book in terms of the farm bill proposal

that you are familiar with, it is $5 billion minimum on the GSM-102 and $1 billion on the GSM-103.

Senator KERREY. OK. So if it is in the budget request, it is an error?

Dr. CROWDER. It is inconsistent with the farm bill proposal. Do you know, Ann, whether it is——

Senator KERREY. Well, wait a minute. The farm bill proposal contains only guidelines. It does not carry the authority that the budget recommendation does. So you are saying that, in fact, a budget recommendation should be the same as the——

Dr. CROWDER. As the farm bill proposal.

Senator KERREY. And the administration's position is not to place a cap on these programs.

Dr. CROWDER. The administration's position is not to place a cap on that.

Senator KERREY. Well, I refer you to the budget book itself which appears, in fact, fairly specifically to make that number a ceiling.

Dr. CROWDER. OK.

Senator KERREY. And not the minimum level that it had been before.

Dr. CROWDER. I will check it.

Senator KERREY. And again, my concern is that the public statements that have been made by the administration with regards to EEP and to these credit lines seem to imply that something that we in the Congress are doing has been sending a wrong signal to the European Community. In fact, I would assert that it has been just the opposite. Congress has been much stronger in its support of EEP. In fact, part of the cynicism and skepticism that Senator Daschle referred to derives from President Reagan's very negative comments that he made when he signed the 1985 farm bill. The President said he intended to eliminate EEP and get it stricken from the law.

So it seems to me that the Congress has been much stronger in its support both of EEP and of the extension of credit and much stronger in sending a signal to the European Community than the administration has been.

Dr. CROWDER. Let me respond to that. Particularly, since I have been here, I do not think that anyone has been a stronger proponent of the program than I have. And the fact that the level of spending this year is not at the budget level or not where some might think it would be, I think it is important to look at a couple things. One, the volume of commodities going out. And a host of commodities, barley, oil, malt, flour, a number of those like that, for which the volume is up over a year ago. The volume that is down in a major way this year, from like $8 million in the first 4 months of this fiscal year compared to last year, is wheat.

And the situation with wheat has resulted from two droughts, there is just not a lot there. With the exports that we have this year, we are going to have to carry out stocks at what—440 million bushels. And as you know, last August we tried to, we not only tried to—we offered an option to get increased wheat production by providing the farmers to do that, and we got a lot of criticism for doing that. But you must have the wheat to export it. And with a

carryout like that this year, it is not surprising that the export volume or EEP on wheat is down.

But barley, we have a large increase over last year, and the carryout is going to be down as a result of it to 155 million bushels. So I think we have been aggressive given the supply situation, and we have been very effective in terms of the dollars we have been using. So I do not think we, you or us, ought to judge the success of the program on the number of dollars we spend because what we want to do is export the greatest volume with the minimum amount of dollars so that we can be more effective against the EC.

Senator KERREY. Just as a follow up, Mr. Secretary, I would appreciate it if you would look at the budget language here and respond as to whether or not the administration's position is as it appears in the budget, which is to put a cap on the short and intermediate credit programs.

Dr. CROWDER. I will do that.

Senator KERREY. Thank you.

Dr. CROWDER. Thank you.

[Dr. Crowder's response to Senator Kerrey's question follows:]

ADMINISTRATION'S POSITION ON THE SHORT AND INTERMEDIATE CREDIT PROGRAMS

The Food Security Act of 1985 established a minimum annual program level for GSM-102 short-term credit guarantees of $5.0 billion and a maximum annual program level of $1.0 billion for GSM-103 intermediate-term credit guarantees. The administration proposes that these program level limits be continued in the 1990 farm bill. The administration's fiscal year 1991 budget proposes a program level of $5.0 billion for GSM-102 short-term credit guarantees and $500 million for GSM-103 intermediate-credit guarantees. While the budget proposal is presented as a limit, the CCC Charter Act and the Food Security Act of 1985 provide considerable latitude for expanding the GSM-102 program. We are continuing to assess the needs and opportunities for export credit guarantees in Eastern Europe and other regions of the world. We have not determined the need to revise the budget estimate of $5.5 billion for export credit guarantees. It is important to emphasize that any expansion of this program must be accompanied by the necessary personnel and management controls to effectively manage the program.

The CHAIRMAN. Thank you. Senator Conrad, you have a statement for the record which will be included as part of the record.

[The prepared statement of Senator Conrad can be found on page 501.]

Senator CONRAD. Thank you, Mr. Chairman.

Mr. Secretary, I have just completed, along with our Congressman, a tour of my State having a series of farm forums. I would think it is safe to say my farmers are about as angry as I have ever seen them. And the question they ask is what determines price? We have heard over and over that price is determined by supply and demand. I assume that you would subscribe to that; am I correct?

Dr. CROWDER. I would.

Senator CONRAD. My farmers say to me that stocks have fallen. You have just indicated stocks of wheat are near record lows on a stocks-to-usage basis; is that correct?

Dr. CROWDER. Close.

Senator CONRAD. Close to a record low?

Dr. CROWDER. I do not recall the specific close but——

Senator CONRAD. Why have we not, then, seen a significant price move in the market if supply and demand are the major factors in price and stocks of wheat are record lows? Can you tell me what you would say to farmers who are asking, "Why have we not seen it in the market?"

Dr. CROWDER. Well, I think you have seen it in the market. I think there are several issues in terms of whether we have seen it in the market or not. One, if you believe we have not seen it in the market, then your expectations of what the market should be is different than what the market is. It is either too high or too low. If farmers were expecting a higher price given the stocks, and they are not seeing it in a market if some people are expecting the price to be. If the price is higher than some people expect, they may not say the market is reflecting that. Secondly——

Senator CONRAD. Well, let me just cite you a GAO study. GAO says, by historical standards, Durum ought to be a $1.80 a bushel higher than it is now, $1.80. That is their conclusion looking at history. Why is it not happening? Durum is selling at a discount to other wheats. Durum has traditionally sold at a premium. Why is that happening?

Dr. CROWDER. Well, a couple of things. One, I do not know the basis of, or the merits of, the GAO study, so I will not comment on that. With respect to the issue of Durum being a discount to other wheats, Durum over the years has sold at a discount. Durum over the years has sold at a premium to Spring wheat in particular. So I guess I am not as surprised by the fact that Durum is underneath or below the price of Spring wheat relative to history because it has happened before. So it may not——

Senator CONRAD. How about the GAO study that says according to history Durum ought to be $1.80 a bushel higher than it is now, looking at stocks-to-usage ratios in the market?

Dr. CROWDER. I have not seen the study, and I have not read it, and I really, Senator Conrad, have no basis for commenting on whether that study is right, wrong, or whether I would want to take a market position on it. It sure represents a good spread opportunity for someone out there.

Senator CONRAD. Let me ask you this. Are prices on all wheat below last year or above last year?

Dr. CROWDER. Today all wheat? That answer I do not know.

Senator CONRAD. Below last year, that is the answer. Number two, are stocks below last year or above last year in a stocks-to-usage ratio?

Dr. CROWDER. They are below last year.

Senator CONRAD. Well, then why is this happening? If supply and demand determine prices, and stocks-to-usage ratios indicate we have fewer stocks available than last year, why are prices lower? That is what my farmers are asking.

Dr. CROWDER. I think there are two things that you have to consider there. First of all, if GAO or you or I or any econometrician anywhere should try to explain wheat prices with one variable called stocks-to-usage ratio, (a) the statistical fit would be greater than 50 percent in terms of explanation, but the standard error, the range around those estimates, would be rather large. So stocks-to-usage ratios are only one of several variables that determines

the, although it influences, the price of wheat. There are other things that influence it also.

Senator CONRAD. What would these other factors be?

Dr. CROWDER. It would include that one. The primary one would be the expectations with respect to what this year's crop is going to be. A second would be is to whether the market had adjusted to a tighter stocks-to-usage ratio. My experience in trading the markets over the years, Senator, has been that the first time you go to a very tight stocks-to-use ratio or to a very large stocks-to-use ratio, you get to a record level the first time. The market will overreact. And I think this is what is happening right now in terms of people's expectations. If you look back when we were at these stocks-to-usage ratios before, it was the first time we had been there, and the market overreacted, which created—and the reason for that overreaction was a component of demand called inventory demand.

Demand has two components. One, the inventory—your willingness to hold inventory. And secondly, the use demand that is going on. So the first time that you get to these levels, and my experience is that there is this inventory demand, speculative demand if you want to, people are willing to hold it. And then all of a sudden, the market finds out that it can operate with a lower level of stocks as efficiently as they did before because of improvements in the system, improvements in transportation, storage, knowing how to operate. So that is one thing. I think that is probably a big item in terms of frustration on the part of some people this year.

We were this stocks-to-usage ratio before and the price was this. Now we have to be at another, we should be at the same level because we are back there again, and that does not necessarily follow, and I would not want to try to make a living trading on that basis.

Senator CONRAD. What was the authorization for EEP last year?

Dr. CROWDER. What was the authorization for EEP last year? What was it? $800 million, I believe. $600. $770. OK.

Senator CONRAD. And how much was used?

Dr. CROWDER. Do you remember, Chris? What was the number we actually used last year?

Mr. GOLDTHWAIT. We used—I do not have the number right off hand.

Dr. CROWDER. 303——

Senator CONRAD. $300 million?

Dr. CROWDER. Yes. 330 I was going to say.

Senator CONRAD. Do you think there is any connection between failure to use the authorization that was available and the fact that prices have weakened?

Dr. CROWDER. No, I do not think so at all.

Senator CONRAD. Could this situation be characterized as a unilateral disarmament sending exactly the wrong signal to the Europeans? We were authorized $770 million on EEP and used $340 million—less than half—could that be characterized as sending a strong signal to Europe that we are ready to fight for these markets? Or would you consider that a weak signal?

Dr. CROWDER. I would give the same response to your question as I did to Senator Daschle that I do not think that you should measure the effectiveness of the program by the dollars spent.

Senator CONRAD. So we can get the same result for half as much spending, would you say?

Dr. CROWDER. If you can get it for half as much spending, you should get it for half as much spending and not deliberately try to spend twice as much.

Senator CONRAD. But you are saying you cannot make the program work for the amount of money that was authorized?

Dr. CROWDER. No, I did not say that at all. I said I thought the program and I think the program is working well. When we were able to——

Senator CONRAD. Why was not the entire authorization used then? I am all for efficiency. But you used less than half the money. I would conclude from that you could not use the amount authorized efficiently, effectively?

Dr. CROWDER. I think that is exactly right.

Senator CONRAD. Why would we then accept the notion that you could use $900 million effectively in this next budget cycle?

Dr. CROWDER. Again, I would respond the same as I did earlier with two points. First, it says that there is a limit in terms of how much we as a country are willing to spend; and second, that the price of playing the game next year may go up and we may need it.

Senator CONRAD. I would just say to you that if I were the Europeans what it would tell me is that what we are willing to spend is what we spent in the past. I mean if the money is authorized, and then not spent, that sends a clear signal to the Europeans.

Dr. CROWDER. Well, I think that you may be getting one message, and my conversation with the Europeans is they may be getting another message. And I am comfortable with what we have spent and how we have spent it, particularly with respect to wheat and barley, because we are going to get our exports out of wheat and flour with a very effective and efficient use of the funds, and as you know, from your own barley growers, we have been very effective and aggressive in barley production this year, and in fact, have the projected exports such that the carryout is down to $155 million.

And I do not think that it would be very responsible on our part just because we have additional money left in the EEP fund, if you will, to purposely drive barley stocks to levels that, you know, distort the domestic market or to, given the uncertainty with respect to the wheat crop, purposely try to drive wheat stocks down below 400 million bushels. As I indicated earlier, we have tried and we want wheat to export, and we will do it. One of the frustrations that we have, similar to what your farmers have, is that on the one hand people tell us to EEP, EEP more and more, and when we come up with a program that says, well, let us produce a little bit more, then they get upset about it, and you take some fan mail about that.

So to EEP it, we need to produce it, and that is what we are trying to do, and if we have it, we have no reservations at all about EEPing it.

Senator CONRAD. Well, to EEP it, you use the resources you have, but you have not done that. Farmers are sitting out there faced with an economic calamity, and the administration talks about producing more to EEP it and yet it has not done half of what it could

have. Talk about frustration. Those people are mighty frustrated. Durum, $1.80 below where it is supposed to be by historical standards, and there has not been much done at all to remedy this situation. And now the administration wants $900 million when it used less than half of what it was given last year.

Frankly, it is pretty hard to go out and justify your request. I do not know how to sell the proposed program when the administration uses less than half of what it had last year. Now you ask for a big increase, and you have not used what you had.

Dr. CROWDER. Well, I think several things I would not try to sell. First, I doubt that I would try to sell that the price ought to be $1.80 above what it should be. I also probably would not try to sell the fact that we ought to use the——

Senator CONRAD. Nobody is trying to sell the $1.80. This is GAO's report of historically what the price of Durum would be in this market.

Dr. CROWDER. It is, I understand that. I would also think it would not be very responsible to sell the fact that we should use another $300 million to drive wheat stocks down to 100, 200, 300 million bushels or whatever there are. I just do not think that would be very responsible, and I am willing to stand by what we have done there. It would be, I think, not very responsible at all either from an expenditure of funds standpoint or from a balance sheet management to drive wheat stocks 100 million bushels below. I do not know what level you have in mind. You have not suggested that, but I just think that it would be irresponsible to take the stocks down just because there happened to be a dollar amount sitting there authorized to do.

Senator CONRAD. Do you have a stocks policy?

Dr. CROWDER. Do we have a stocks policy?

Senator CONRAD. I hear the administration say that it would not do this, it would not do that. I assume from that you must have a stocks policy. Maybe you could tell us what that is today.

Dr. CROWDER. The stocks policy is that you do not try to drive the stocks down to a level that would jeopardize a supply situation either for the consumer or for the producer. Somewhere along the way you have to make a judgment in terms of what the minimum level of stocks would be, and to suggest that I think, as I am hearing you suggest, that we ought to spend another $300 million to have EEPed more wheat this year, I think would have driven the stocks down too low.

Senator CONRAD. No. That is not what I have said at all. What I have said is that you had authorization for $775 or $780 million. You used less than half of that. In the first place, this means we have sent a signal to the Europeans that we are not very serious about fighting for these markets. In the second place, when the administration asks for an increase in authorization when it has not used half of what it had, I think that raises serious questions about what we should do in response.

And finally, when I see prices lower than last year, that tells me the market disagrees with your analysis as to what is necessary in terms of stocks. I do not know what other conclusion you could reach. If prices are down, and stocks are too low, why are prices not going up?

Dr. CROWDER. Let me address a point you made earlier with respect to the signal sent to the Europeans. The Europeans are much more concerned about how much we are willing to produce than they are concerned about how much of last year's authorization we spent. We hear a lot more panic, if that is the word to use, from the EC when we reduce ARP's to increase production than we do anything else. The Europeans, Senator, can read our balance sheets and know how much we have to export as well as we can. And that is the signal they start with in terms of really how aggressive we want to be. That is the starting point. Then once you get it, then you go from there.

Senator CONRAD. Well, the chairman has another obligation as do I. I tell you that the 3,000 farmers I heard from last week look at these prices and at the policy on EEP, and they say it does not add up. They cannot understand what we are doing. And I must say I agree with them. I cannot make head nor tail out of what this policy is. And if we have a stocks policy, I would be very interested in knowing what that is. If there are targets——

Dr. CROWDER. There are not targets.

Senator CONRAD. There are not targets.

Dr. CROWDER. There are not specific targets. You make a judgment call at the time.

Senator CONRAD. Well, all I can say on behalf of producers is that we have not been very concerned about the price they receive. There is extreme economic stress in my part of the country, extreme. And I do not see much of a response from the administration, nor do they. I am frustrated that Durum is $1.80 below what GAO says it would normally be, and all kinds of EEP authority is not being used.

The farmers in my State are wondering what is going on. Who is USDA working for? That was a question asked me repeatedly. Who are they working for? Are they working for the trade? Are they working for the buyers to keep prices artificially low? Does the administration want to force us all out of business? These are the questions that they ask me.

Dr. CROWDER. Let me make one other point on the EEP and the use of EEP, and I do not have the exact number, but I can give you that. We will send it to you. There are enough open wheat initiatives on the book for countries to buy, to more than use or draw down our stocks to levels that would be very uncomfortable. It is not the fact that initiatives are not on the book. They are there, and if customers want to buy them, and if people want to sell them, they are there to be used. And I would be glad to send you a list of all the countries where initiatives are open and approved. So you can use it as a base, and you and I have talked about this on the phone a couple of times, in terms of what is open and what is not. And I will get you an updated list on that so that you can see that. Then you could take that back and say here it is, use it, and sell it because it is there and we would go with it.

[Information on the Status of the Export Enhancement Program was subsequently supplied by Dr. Crowder and follows:]

21-Feb-1990 STATUS OF THE EXPORT ENHANCEMENT PROGRAM PAGE: 1

COMMODITY/COUNTRY/ UNIT OF MEASURE	QUANTITY ANNOUNCED	QUANTITY AWARDED	BALANCE	DATE EXPIRES
Wheat (Metric Tons)				
Algeria (500-1)	6,200,000	6,200,000	0	COMPLETED
Bangladesh (500-68)	900,000	792,500	107,500	28-Sep-1990
Benin (500-22)	30,000	30,000	0	COMPLETED
Brazil (513-71)	66,000	66,000	0	COMPLETED
Brazil (500-71)		0	0	COMPLETED
Bulgaria (500-82)	350,000	150,000	200,000	28-Sep-1990
Burundi (500-94)	10,000	0	10,000	28-Sep-1990
China (500-61)	15,200,000	15,200,000	0	COMPLETED
Colombia (500-70)	700,000	700,000	0	COMPLETED
Egypt (500-3)	8,065,250	7,603,050	462,200	12-Dec-1990
Finland (500-87)	250,000	150,000	100,000	28-Sep-1990
German Democratic Rep. (500-98)	130,000	0	130,000	28-Sep-1990
India (500-97)	3,000,000	2,000,000	1,000,000	28-Sep-1990
Iraq (500-60)	2,800,000	2,486,450	313,550	28-Sep-1990
Jordan (500-19)	725,000	725,000	0	COMPLETED
Lebanon (500-88)	150,000	0	150,000	28-Sep-1990
Malta (500-111)		0	0	COMPLETED
Mexico (500-86)	1,400,375	1,399,375	1,000	28-Sep-1990
Morocco (500-6)	5,290,000	5,117,820	172,180	27-Sep-1991
Nigeria (500-62)	500,000	0	500,000	28-Sep-1990
Norway (500-112)		0	0	COMPLETED
Poland (500-58)	2,500,000	1,997,000	503,000	28-Sep-1990
Romania (500-56)	250,000	0	250,000	28-Sep-1990
Senegal (500-38)	100,000	100,000	0	COMPLETED
Sri Lanka (500-32)	1,059,500	1,059,500	0	COMPLETED
The Canary Islands (500-43)	23,300	23,300	0	COMPLETED
The Philippines (500-15)	2,450,000	2,450,000	0	COMPLETED
The Soviet Union (500-67)	21,315,000	21,315,000	0	COMPLETED
Trinidad and Tobago (500-108)		0	0	COMPLETED
Tunisia (500-18)	1,825,000	1,350,000	475,000	28-Sep-1990
Turkey (500-7)	1,006,600	904,600	102,000	28-Sep-1990
W. & Cent. Afr. Countries (512-50)	766,700	766,700	0	COMPLETED
Yemen (500-5)	550,000	550,000	0	COMPLETED
Yugoslavia (500-25)	1,400,000	842,980	557,020	28-Sep-1990
Zaire (500-14)	360,000	360,000	0	COMPLETED
TOTALS	79,372,725	74,339,275	5,033,450	
Wheat Flour (Metric Tons)				
Benin (505-100)	21,900	21,900	0	COMPLETED
Cameroon (505-47)	55,000	55,000	0	COMPLETED
Egypt (505-2)	1,950,000	1,543,000	407,000	07-Nov-1990
Iraq (505-12)	325,000	300,000	25,000	28-Sep-1990
Sri Lanka (505-104)	50,000	50,000	0	COMPLETED
The Central Afr. Republic (505-101)	20,000	20,000	0	COMPLETED

FIGURES DO NOT REFLECT AMENDMENTS

COMMODITY/COUNTRY/ UNIT OF MEASURE	QUANTITY ANNOUNCED	QUANTITY AWARDED		BALANCE	DATE EXPIRES
The Philippines (505-9)	50,000	50,000		0	COMPLETED
The Soviet Union (505-110)		0		0	COMPLETED
W. & Cent. Afr. Countries (505-106)		0		0	COMPLETED
Yemen (505-4)	350,000	350,000		0	COMPLETED
Zaire (505-10)	94,000	94,000		0	COMPLETED
Zanzibar (505-53)	6,000	6,000		0	COMPLETED
TOTALS	2,921,900	2,489,900		432,000	
Semolina (Metric Tons)					
Algeria (503-16)	80,000	30,000		50,000	28-Sep-1990
Egypt (503-42)	23,000	23,000		0	COMPLETED
TOTALS	103,000	53,000		50,000	
Feed Grains (Metric Tons)					
Algeria (504-30)	1,200,000	723,000	Barley	477,000	07-Nov-1990
Bulgaria (504-83)	150,000	150,000	Barley	0	COMPLETED
Cyprus (504-44)	152,000	152,000	Barley	0	COMPLETED
Hungary (504-79)	100,000	0	Barley	100,000	28-Sep-1990
Iraq (504-72)	250,000	250,000	Barley	0	COMPLETED
Israel (504-35)	603,700	601,357	Barley	2,343	26-Jul-1991
Jordan (504-36)	160,000	160,000	Barley	0	COMPLETED
Poland (504-57)	700,000	228,000	Barley	162,000	28-Sep-1990
		310,000	Sorghum	(Both)	COMPLETED
Romania (504-46)	200,000	125,000	Barley	75,000	28-Sep-1990
Saudi Arabia (504-31)	4,776,000	4,273,500	Barley	502,500	12-Mar-1991
Switzerland (504-59)	250,000	9,000	Sorghum	241,000	28-Sep-1990
Tunisia (504-52)	500,000	345,400	Barley	154,600	28-Sep-1990
Turkey (504-103)	200,000	0		200,000	28-Sep-1990
TOTALS	9,241,700	7,327,257		1,914,443	
Barley Malt (Metric Tons)					
Algeria (507-91)	10,000	3,300		6,700	28-Sep-1990
Brazil (507-105)	50,000	0		50,000	27-Sep-1990
Burundi (507-89)	15,000	0		15,000	28-Sep-1990
Cameroon (507-95)	20,000	0		20,000	28-Sep-1990
Central American Countries (507-93)	40,000	6,500		33,500	28-Sep-1990
Colombia (507-65)	40,000	40,000		0	COMPLETED
Iraq (507-90)	5,000	5,000		0	COMPLETED
Nigeria (507-13)	100,000	93,464		6,536	28-Sep-1990
Peru (507-96)	20,000	0		20,000	28-Sep-1990

FIGURES DO NOT REFLECT AMENDMENTS

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COMMODITY/COUNTRY/ UNIT OF MEASURE	QUANTITY ANNOUNCED	QUANTITY AWARDED	BALANCE	DATE EXPIRES
Philippines (507-48)	60,000	60,000	0	COMPLETED
Venezuela (507-45)	100,000	500	99,500	28-Sep-1990
TOTALS	460,000	208,764	251,236	
Rice (Metric Tons)				
East European Countries (509-109)		0	0	COMPLETED
Jordan (509-8)	101,150	101,150	0	COMPLETED
Turkey (509-66)	110,000	90,000	20,000	28-Sep-1990
TOTALS	211,150	191,150	20,000	
Mixed Poultry Feed (Metric Tons)				
Yemen (510-26)	188,968	188,968	0	COMPLETED
TOTALS	188,968	188,968	0	
Frozen Poultry (Metric tons)				
Egypt (508-11)	79,000	74,000	5,000	28-Sep-1990
Gulf Countries (508-81)	16,000	10,602	5,398	28-Sep-1990
Iraq (508-55)	100,000	70,000	30,000	28-Sep-1990
Jordan (508-107)		0	0	COMPLETED
Saudi Arabia (508-80)	20,000	3,900	16,100	28-Sep-1990
Singapore (508-75)	2,000	1,157	843	28-Sep-1990
The Canary Islands (508-63)	8,000	8,000	0	COMPLETED
The Dominican Republic (508-49)	3,500	3,500	0	COMPLETED
West African Countries (508-99)	5,000	20	4,980	28-Sep-1990
Zaire (508-85)	7,000	0	7,000	28-Sep-1990
TOTALS	240,500	171,179	69,321	
Vegetable Oil (Metric Tons)				
Algeria (502-78)	120,000	120,000	0	COMPLETED
India (502-37)	325,000	145,000	180,000	28-Sep-1990
Morocco (502-77)	120,000	78,000	42,000	31-Jan-1991
Tunisia (502-76)	120,000	120,000	0	COMPLETED
Turkey (502-92)	80,000	80,000	0	COMPLETED
TOTALS	765,000	543,000	222,000	

FIGURES DO NOT REFLECT AMENDMENTS

COMMODITY/COUNTRY/ UNIT OF MEASURE	QUANTITY ANNOUNCED	QUANTITY AWARDED	BALANCE	DATE EXPIRES
Dairy Cattle (Head)				
Algeria (501-33)	5,000	5,000	0	COMPLETED
Canary Islands (501-40)	2,985	2,985	0	COMPLETED
China (501-84)	185	185	0	COMPLETED
Egypt (501-29)	9,681	9,681	0	COMPLETED
Gulf Countries (501-51)	1,524	1,524	0	COMPLETED
Indonesia (501-24)	19,500	19,500	0	COMPLETED
Iraq (501-20)	6,028	6,028	0	COMPLETED
Morocco (501-28)	4,000	4,000	0	COMPLETED
Saudi Arabia (501-73)	1,870	1,870	0	COMPLETED
Tunisia (501-34)	4,000	4,000	0	COMPLETED
Turkey (501A-27)	5,000	5,000	0	COMPLETED
Turkey (501-27)	10,000	10,000	0	COMPLETED
TOTALS	69,773	69,773	0	
Eggs (Dozen)				
Dominican Republic (506-54)	2,083,333	925,000	1,158,333	28-Sep-1990
Hong Kong (506-39)	15,666,666	15,666,666	0	COMPLETED
Iraq (506-64)	23,750,000	14,820,902	8,929,098	28-Sep-1990
Near East Countries (506-74)	9,166,667	8,391,976	774,691	28-Sep-1990
TOTALS	50,666,666	39,804,544	10,862,122	

FIGURES DO NOT REFLECT AMENDMENTS

Senator CONRAD. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. I have a number of other questions, but insofar as we are scheduled to break here at 11:15, I will submit them for the record.

[Questions submitted by Chairman Leahy can be found on pp. 627 to 630.]

The CHAIRMAN. Let me ask you about the GAO testimony and report which will be made part of the record.[10] Although in its early years the EEP increased the costs of subsidies to the European Country, it has neither deterred the EC from using subsidies nor hurt its share of the world market. Nevertheless, we believe that the EEP has been instrumental in bringing the EC to the negotiating table and should continue to be available as a U.S. trade policy tool until agreements are reached on agricultural subsidies. Would you agree with that general conclusion?

Dr. CROWDER. Yes, I would, sir.

The CHAIRMAN. Thank you. Mr. Secretary, it was good to see you again. Thank you for being here, and I appreciate your cooperation.

Dr. CROWDER. Thank you very much.

The CHAIRMAN. Please take a look at the questions we will follow with, but especially the ones that give the, as I mentioned earlier, continuing liability under CCC.

Dr. CROWDER. We will respond to all of them promptly.

The CHAIRMAN. I am sure you will. Thank you.

Dr. CROWDER. Thank you.

The CHAIRMAN. And we have Allan Mendelowitz from GAO.

STATEMENT OF ALLAN I. MENDELOWITZ, DIRECTOR, TRADE, ENERGY, AND FINANCE ISSUES, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, U.S. GENERAL ACCOUNTING OFFICE, WASHINGTON, DC; ACCOMPANIED BY PHILLIP THOMAS, ASSISTANT DIRECTOR, TRADE, ENERGY, AND FINANCE ISSUES, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, U.S. GENERAL ACCOUNTING OFFICE, WASHINGTON, DC

The CHAIRMAN. Mr. Mendelowitz, your testimony, of course, will be part of the record. I would ask you, though, that GAO has been asked to investigate the situation involving Banca Nazionale del Lavoro in its activities under the Export Credit Guarantee Program operated by the Commodity Credit Corporation. What is the status of that investigation? Could you tell us?

Mr. MENDELOWITZ. Yes. Before I answer the question, I just wanted to comment that I will be happy to submit the full statement for the record and leave it at that and just answer your questions, and I want to introduce Phil Thomas who is with me.

The CHAIRMAN. That means that we concur on that. Go ahead. Which is always nice.

Mr. MENDELOWITZ. We are just getting started on that. One of the things that we want to be careful about is—because there is a

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[10] GAO/NSIAD-90-59FS, International Trade, Activity Under the Export Enhancement Program, February 1990 is retained in the committee file.

grand jury investigating it and there are other ongoing investigations—we want to be careful not to trip over those.

The CHAIRMAN. That is understandable. And could you tell us within the strictures of that, and if you feel this is a question you should not answer in open session feel free to tell me, but have you found evidence that the bank or Iraq misused the CCC Credit Guarantee Program?

Mr. MENDELOWITZ. We do not have any evidence at this point that would support that allegation.

The CHAIRMAN. Do you have any reason to believe that there are other potential Banca Nazionale del Lavoro situations out in the horizon?

Mr. MENDELOWITZ. I think there are two different ways of answering the question. The first one is are there banks out there in which branch offices are engaging in unauthorized loan practices? That is a question of bank examination, bank regulation. It is possible. Whether there are any more with respect to the GSM program, that we do not know. One of the problems with the management and administration of the GSM credit guarantee programs is that as we have reported over the years, we feel there is insufficient management oversight by the Department. One of the things that we pointed out is that there are no checks to make sure that, in fact, the commodities that are supposed to be shipped under the program are shipped and delivered to the appropriate destination.

We have recommended that as part——

The CHAIRMAN. Is that not a fairly big hole in the program?

Mr. MENDELOWITZ. Yes. We have recommended, for example, as part of the program, there should be some random spot checks to see if, in fact, the reported commodities are being shipped so that they have some support for their belief that, in fact, the program is being used as is appropriate. Without that kind of random testing, it is hard to make an unequivocal statement that it is always being used appropriately. And we do not feel it is an issue that can be assessed merely by looking at paperwork submissions.

The CHAIRMAN. Just from a pure auditing point of view, without that kind of check, there is no way anybody could be totally comfortable in certifying anything; is that right?

Mr. MENDELOWITZ. That is correct. That is correct. The program as it is currently structured actually would trigger no investigations or oversight on the part of the Department unless a guaranteed loan were defaulted on and the Department had to pay a claim. Then they would look at it a bit more closely. But for example, as long as the guaranteed loans were repaid on time and no one raised any questions, there would be no oversight to ensure that, in fact, the program was being used appropriately.

The CHAIRMAN. So, in effect, the money could be in there being used for something entirely different than it was intended, and nobody would be apt to know so long as the money was paid back?

Mr. MENDELOWITZ. As a theoretical proposition, that is correct.

The CHAIRMAN. Somebody could have a CCC guarantee but money could be used for the purpose of other items or other operations or anything else. We are potentially on the hook. If the money gets paid, well, everything is safe and nobody knows what happened potentially?

Mr. MENDELOWITZ. Correct.

The CHAIRMAN. Which, of course, would bury, though, the basic reason of the CCC guarantees which were to allow for the export of commodities grown here as well as other foreign policy reasons.

Mr. MENDELOWITZ. Yes.

The CHAIRMAN. On the TEA program, has that been successful in countering foreign unfair trade practices, in your estimation?

Mr. MENDELOWITZ. I think that the way TEA is structured, it would be more appropriate to describe it as a program which attempts to compensate industries or products or commodities that have suffered from unfair foreign trade practices rather than directly confronting or offsetting those unfair foreign trade practices. The program gives priority to products and commodities that have had successful section 301 case determinations or which have been clearly the victims of unfair foreign trade practices. But the fact that a product or commodity qualifies for the program because of unfair foreign trade practice does not mean necessarily that the program then enables the product or commodity in question to overcome the hurdle of the specific unfair foreign trade practice that it is being compensated for.

You know it may have a problem in country A and wind up getting support to operate in country B.

The CHAIRMAN. I have a number of questions on loan loss reserves, which I will submit for the record.

In fact, I think I will have my staff talk with yours on both the nature of the questions and the response. I mention this because we are getting more and more of this issue of loan loss reserves, and what are the budgetary impacts, and do we have huge snowballs out there waiting to crush the Capitol, or is it just the price of doing business?

Mr. MENDELOWITZ. Well, if I can take a moment I would like to sort of put the loan loss reserve issue into the appropriate perspective.

The CHAIRMAN. Please do.

Mr. MENDELOWITZ. The wording in my statement is carefully drawn accounting wording.

The CHAIRMAN. I realize that.

Mr. MENDELOWITZ. If you would like, I would be happy to give sort of intuitive explanation to what we are talking about.

The CHAIRMAN. Go ahead, please.

Mr. MENDELOWITZ. If CCC has loans outstanding, I could break them into three general categories. One category would be loans to creditors who are so creditworthy that nobody questions their ability to repay, and those are loans on which we fully expect repayment. There is no question of impairment of the value. There is very little risk associated with them, and there would be no reason to create a loan loss reserve against the nonpayment of those loans.

At the other extreme, there might be loans to a creditor who is such a poor risk and is in such dire economic trouble that the U.S. Government might sit down with that creditor and say, for example, you owe us $50 million. If you pay us $1 million now, we will writeoff the other $49 million. In that case, that asset, that loan is taken off the books. There were some loans that the United States made to certain of the poorest countries in Africa, which in the

past year, I believe, have been written down in this way. But in a third middle grouping you have a chunk of outstanding loans to countries that represent risk of nonrepayment because they are in difficult economic conditions.

They may be paying on their debt as currently required, or they may have rescheduled debt that they were unable to pay on previously, and they may be current on the reschedulings. But because of the general overall economic problems of these countries, the assessment is that there is substantial risk of nonrepayment of these loans. And what the loan loss reserve does is it tries to reflect in the accounts of CCC or the Ex-Im Bank or a private bank, for that matter, the diminution in the value of those loans because there are risks of nonrepayment.

And that is what we are talking about. It is not a loss that has shown up in hand in the sense that you have written something off, but it is a reflection of the risk associated with the portfolio.

The CHAIRMAN. We also, do we not, have to figure out something in here, and just from the foreign policy point of view I will put in one example. I am chairman of the Appropriations Subcommittee on Foreign Operations. We handle the whole foreign aid budget. We get approximately $15 billion in there, and we know we are going to spend approximately $15 billion in foreign aid. Some of the CCC guarantees have been used, in effect, as foreign aid. The President of the United States may go into a country and say we are going to help you out; checks his foreign aid budget. It does not have the $500 million or billion or whatever he wants in aid to the country. So he cannot write them a check for that. So they end up giving them a CCC guarantee, which everybody, the President, the Secretary of State, Secretary of Agriculture, various members of the committee, know is never going to get paid back.

I wonder whether we should have a different kind of an accounting measure for that? Or is that pushing too much to truth in government and truth in budgeting? I mean we could probably start something that could tear down the whole rosy scenario, the whole smoke and mirror budget.

Mr. MENDELOWITZ. Well, there are, I think, a large number of government programs that serve multiple objectives, and I think that your description of how some of the, for example, Export Credit Guarantee Programs for agricultural products get determined——

The CHAIRMAN. Well, Public Law 480, I mean a 40-year loan for food that is going to be eaten in 1 year paid for in local currency.

Mr. MENDELOWITZ. Yes. Well, I do not think you really need to segregate out necessarily which loans may have or may have not been made for foreign policy reasons because I think many have some sort of foreign policy objective associated with them. I think that in terms of getting a good handle on what the cost to the Government is, I think if you just sort of lump it together and try to come up with a good judgment call on what the loan loss reserve is you will make progress down the road.

The CHAIRMAN. But every so often just be honest and kind of have spring cleaning and clean some of those off that are never going to get repaid?

Mr. MENDELOWITZ. Well, I think that is a little more complex. When you create a loan loss reserve, it does not reduce the legal obligation of the creditor to pay. The creation of a loan loss reserve in no way reduces the obligation of the creditor to pay. What you are proposing is deciding what, in fact, represents foreign aid and sitting down with the creditor and releasing him from his obligation, and that is certainly another way of dealing with it.

The CHAIRMAN. Or the loan loss also reflects what you think is really how much you may lose from those loans.

Mr. MENDELOWITZ. Yes.

The CHAIRMAN. I will leave that to yours and the Department's expertise to figure out. I am not just sure where—I think we all agree that is not a totally exact science. I mean it does not become just an accounting issue. It is a political and policy issue, too.

Mr. MENDELOWITZ. Absolutely. It is a policy issue and in terms of valuing the loan loss reserve, there is definitely an informed judgment call that is necessary. And that is one of the reasons why in the financial audit of the CCC or the report on the financial audit of the CCC, GAO provided a range of possible amounts that should be in the loan loss reserve rather than a point estimate.

The CHAIRMAN. Mr. Mendelowitz, I thank you for your report. I think you are going to hear it quoted quite a bit as we start debating. We are going, as you can understand from some of the questions asked by Senator Conrad and Senator Lugar and others, that there are going to be parts of your report, GAO's report, that are going to be referred to as we go along. You will find that like all good scholars, we will cite your report for what we want. We will, of course, find fault where it does not agree with our preconceived conclusions. I do not want you to think that because of that it is not helpful. Indeed, it is.

And I mean that seriously. It demonstrates again the problem that we have in some of these things in trying to get an exact science, whether it is EEP or other programs. You talk in your report about EEP bringing the EC to the bargaining table, as I recall your statement, but not necessarily bringing that much pressure on them otherwise. I mean they increase their own subsidies and suggested, as I recall the report, that it may well have brought more pressure on Australia, Canada, countries of that nature.

Mr. MENDELOWITZ. That is correct.

The CHAIRMAN. And I think that that is something we have to look at very carefully as we are putting together this farm bill because among other things, I have told everybody the farm bill will be written here, not in Geneva. We are going to have to ask ourselves what questions we deal with, what way we deal with those issues that allow us to compete with the EC, but at the same time not do serious damage to other trading partners like Australia and Canada. I am sorry, sir. I cut you off. You were trying to say something?

Mr. MENDELOWITZ. I was just going to say that our judgment is that the EEP, coupled with our other ag programs has definitely cost the EC money. There is no question about that. In fact, I had an interesting exchange with one of the senior officials responsible for agriculture in the EC last year. One of the questions on which we were trying to get a handle was, in fact, the cost of EEP to the

EC. Someone ventured that maybe the cost was not as great as we thought it was. When the world price of commodities falls, the subsidies on what the EC exports increase, and the exporting subsidy goes up. But at the same time, their variable levy on imports goes up. So that they also collect more revenue when agricultural commodities are imported. And so I posed this question to this official, and I asked how the increased revenue on the import side compared to the increased expenditure on the export side? I said, "You know, in fact, is it a wash?" And he said, "No, no, no, no!" He said, "What we make on the import side is very little. The export subsidies are costing us a lot of money." So I said, "In other words, our programs really have hurt?" And then he realized what he had said, and he said, "Yes, but we have a big budget and we have not expended it all, and whatever it takes we are going to spend it."

The CHAIRMAN. I would have loved to have been a fly on the wall. Mr. Mendelowitz, thank you, and Mr. Thomas, thank you very much for being here, gentlemen.

Mr. MENDELOWITZ. Thank you.

Mr. THOMAS. Thank you.

[The prepared statement and appendixes I-III of Mr. Mendelowitz follow:]

United States General Accounting Office

GAO Testimony

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Status Report on GAO's Reviews of the Targeted Export Assistance Program, the Export Enhancement Program, and the GSM-102/103 Export Credit Guarantee Programs

Statement of
Allan I. Mendelowitz, Director
Trade, Energy, and Finance Issues
National Security and International Affairs
Division

Before the
Committee on Agriculture, Nutrition, and
Forestry
United States Senate

GAO/T-NSIAD-90-02

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss with you the status of our ongoing work on several programs administered by the Department of Agriculture's Foreign Agricultural Service (FAS): (1) the Targeted Export Assistance Program, (2) the Export Enhancement Program, and (3) the GSM-102/103 Export Credit Guarantee Programs. All of these programs have been part of the effort to increase U.S. agricultural exports. In the course of our work, we have identified program management problems which need to be addressed. The new leadership at the U.S. Department of Agriculture is taking a constructive approach to the management problems GAO identified and is in the process of taking responsive action. For example, it has developed proposed regulations for the Targeted Export Assistance Program and the Export Enhancement Program to make them more structured and open. It is also reviewing a proposed FAS reorganization to improve management of FAS operations. Despite these actions, problems still exist. I would now like to discuss in more detail the three above cited export programs.

THE TARGETED EXPORT ASSISTANCE PROGRAM

As requested by Congressman Schumer, we are reviewing the extent to which FAS has implemented the recommendations made in our May 1988 report on the Targeted Export Assistance (TEA) Program.

Since that time, FAS has taken steps to address some of our concerns, such as formalizing its application procedures, developing evaluation guidelines, and requiring that evaluation planning be incorporated in the activity plans. It also established an evaluation branch and charged it with responsibility for clarifying evaluation requirements and working with the commodity divisions in tracking evaluation results. In addition, FAS has drafted proposed regulations for the TEA program which are currently under OMB review.

Our current review has shown, however, that FAS still does not have an adequate system of internal controls to effectively manage this program. Guidelines for the program are not clearly understood by participants and several have expressed confusion, particularly in such areas as contracting out, authorized expenditures, contributions, and evaluation requirements. Minimal documentation exists on major program decisions, leaving FAS vulnerable to questions of accountability and fairness. There is little coordination of funding and activities between the Targeted Export Assistance and Cooperator Foreign Market Development programs, even though approximately half of the TEA participants also participate in the Cooperator program.

FAS exercises minimal oversight of the program. To date, the new evaluation section has done little to track and analyze evaluation results, and is not planning to evaluate the success of

TEA overall. Under the proposed reorganization, a new and expanded Office of Planning and Evaluation would be established.

Based on our work to date, we believe that there may be an opportunity for FAS to better utilize its resources and to improve the management of its market development programs. By combining the TEA and Cooperator programs, FAS would be in a better position to more effectively manage its programs and make more efficient use of its management resources. This is an issue we are currently pursuing.

THE EXPORT ENHANCEMENT PROGRAM

Our review of the Export Enhancement Program (EEP) is being conducted at the request of the Chairman, House Committee on Agriculture; Congressman Conte, the Ranking Minority member of the House Committee on Appropriations; and Congressman Schumer. It covers three major areas--EEP program activity, external effects, and administration.

On February 12, 1990, we issued a fact sheet which provides information on how the EEP operates and on the nature and extent of the program from its inception. This fact sheet includes data on the sales value of commodities sold and delivered under the program, benefits to U.S. exporters in the form of bonuses associated with these sales, countries importing commodities under

the program, and exporters participating in the program. In addition, on February 7, 1990 we issued a letter report to the FAS Administrator on apparent program bonus overpayments. We are now in the process of finalizing a report on the changing role of the EEP, its effect on world agricultural trade, and the need for program operation and management improvements.

The EEP has contributed to increased U.S. agricultural exports, particularly wheat, in many countries, including the Soviet Union, China, and those in the Middle East. The extent of its contributions, however, is difficult if not impossible to quantify because of the many factors that influence exports.

Although in its early years the EEP increased the cost of subsidies for the European Community (EC), it has neither deterred the EC from using subsidies nor hurt its share of the world market. Nevertheless, we believe that the EEP has been instrumental in bringing the EC to the negotiating table, and should continue to be available as a U.S. trade policy tool until agreements are reached on agricultural subsidies.

The effects of EEP are being felt by other U.S. competitors, specifically Australia, Argentina, and Canada. While EEP was designed to challenge subsidizing competitor nations, particularly the European Community, the abovementioned countries have been

adversely affected both in terms of lower prices for their commodities and in reduced market shares.

Administration of the EEP is a complex and cumbersome process. In response to issues we raised during recent House hearings and those addressed in the Department of Agriculture's Inspector General's report on the EEP (Audit Report No. 07099-18-Hy), FAS has been working to improve the program. For example, criteria for determining the overall program level and for selecting commodities and countries to target for EEP sales have been revised and were published in the Federal Register on November 27, 1989. In addition, FAS recently drafted proposed regulations dealing with EEP operations and is preparing written policies and guidelines to address some of the following problems:

-- EEP proposals have been processed through three separate divisions in FAS and filed in a variety of ways. FAS does not have a central point where proposal progress is documented and controlled from submittal to approval or rejection. A centralized tracking system would allow FAS to provide a full history and current status of any proposal when an inquiry is made.

-- Price and bonus calculations are not adequately documented; it is currently difficult to determine from available records whether bonus payments have been excessive.

-- FAS has established qualification requirements for exporters wishing to participate in EEP. However, FAS is not routinely verifying certain information provided by the exporters.

-- FAS has lacked the internal controls necessary to ensure that exporters do not get bonuses for shipments in excess of the amount stated in the contract agreement.

On February 6, 1990, the FAS Administrator testified before your Subcommittee on Domestic and Foreign Marketing and Product Promotion. His testimony highlighted recent program changes which address issues raised by GAO and the OIG. We intend to review these changes and the proposed regulations to evaluate the need for additional improvements.

The EEP remains an important trade policy tool because unilaterally abandoning it would weaken the U.S. negotiating position with the EC. In today's tighter wheat market, the EEP is appropriately being used more selectively. However, in light of continuing EC export subsidies, it is important to fund EEP at levels adequate to maintain the program's credibility as a trade policy tool. If market conditions change, the EEP could again be used aggressively, potentially increasing the cost of the EC's subsidy program and applying pressure on others to negotiate.

GSM-102/103 EXPORT CREDIT GUARANTEE PROGRAMS

Our current review of the GSM-102/103 Export Credit Guarantee Programs was requested by the Chairman, Subcommittee on Tobacco and Peanuts, House Committee on Agriculture. On numerous occasions during the past two years, we have reported on the Commodity Credit Corporation's (CCC) Export Credit Guarantee Programs, referred to as GSM-102 and GSM-103. Each time we discussed the need for improved program management. Today I am pleased to say that FAS officials have taken some action on our concerns. However, we believe more needs to be done.

FAS officials are now more accurately accounting for outstanding guarantees, and they are reviewing participants compliance with program regulations. Other ways to improve the management of the program could include physically verifying that only U.S. agricultural products are being exported, taking suspension or debarment actions against participants violating program regulations, better defining commodities that are eligible for program coverage, and improving the timely handling of revisions to GSM documents when requested by program participants.

When we testified on the GSM programs last November, before House Agriculture Subcommittees, we noted that a major participating financial institution was embroiled in controversy over its unauthorized loans to Iraq. Repayment of many of the

unauthorized loans is guaranteed by CCC under the GSM programs. In light of the circumstances surrounding the controversy, we believe that FAS may want to examine the loan exposure of individual financial institutions participating in the programs and assess the potential impact on CCC's guarantee liability. In response to a request by the Subcommittee on Criminal Justice, House Committee on the Judiciary, we will be reviewing this issue.

In your letter you specifically asked us to comment on the issue of a loan loss reserve for the CCC. As we have reported in recent years, our opinion on the financial statements of CCC is qualified because CCC has not established in its financial statements an allowance for the uncollectible portion of outstanding loans to countries experiencing financial difficulties. We estimate that cumulative losses on such loans as of September 30, 1988, range from $5.6 billion to $8.8 billion on loans outstanding of $16 billion. Also, we estimate additional cumulative losses of $2.3 billion to $3.5 billion on guarantees of outstanding loans to foreign countries amounting to $6 billion. Our understanding is that CCC is considering including an allowance for these losses in its fiscal year 1989 financial statements. In addition, the Department of Agriculture is considering recognizing the loss in its consolidated annual report for 1988 due out this spring.

The situation of the CCC with respect to loans and loan guarantees to foreign countries is analogous to the situation of the U.S. Export-Import Bank which makes direct loans and provides loan guarantees to foreign purchasers of U.S. exports. For a number of years GAO issued adverse opinions on the financial statements of the Export-Import Bank because the bank had not created a loan loss reserve. Last month the Export-Import Bank corrected this problem when it established a $4.8 billion reserve to cover possible losses on 40 percent of its outstanding loans and loan guarantees.

Mr. Chairman, this concludes my statement. More detailed information on the three programs is contained in the attached appendices. I will be happy to answer any questions you may have.

THE TARGETED EXPORT ASSISTANCE PROGRAM

Our review of the TEA program, requested by Congressman Schumer, examines the extent to which FAS has implemented the recommendations made in our May 1988[1] report. The TEA program was mandated by the Food Security Act of 1985 to counter or offset the adverse effects of foreign competitors' unfair trade practices and thereby increase U.S. agricultural exports. Since the legislation did not specify how this program should be carried out, the Foreign Agricultural Service (FAS) decided to establish a market development assistance program similar to that of the Cooperator Market Development Program, for commodities and products adversely affected by unfair trade practices.

This program is now in its fifth and final year of funding. In each year of the program, the total authorized amount was allocated. For fiscal years 1986 through 1988, the annual allocations amounted to $110 million, and for 1989 and 1990, they amounted to $200 million. Approximately 46 not-for-profit agricultural organizations have participated in each year of the program and more than 200 for-profit private firms have received benefits under the program each year.

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[1]Review of Targeted Export Assistance Program (GAO/NSIAD-88-183).

Over 50 percent of TEA funds for fiscal year 1989 were spent in Asian markets, with promotions in Japan alone accounting for 35 percent of TEA funds. European countries were the next largest targeted markets, with promotions in the United Kingdom accounting for over 12 percent of TEA funds. In each year of the program, the top 15 commodity organizations, ranked by amount of TEA funds received, accounted for over 60 percent of TEA funds. For fiscal year 1989, the branded portion of the TEA program, in which activities are aimed at establishing consumer loyalty to a particular brand, accounted for approximately 35 percent of the TEA allocation. The generic portion of the program, in which activities are designed to increase the total market for that commodity with no particular brand being promoted, accounted for the remainder.

TEA Program Administration Lacks Sufficient Management Control and Accountability

In our May 1988 report on TEA, we made several recommendations relating to management control and accountability. In the follow-up review which we are now concluding, we examined the extent to which FAS has implemented our recommendations. FAS has made some improvements in program administration; however, we remain concerned that FAS does not yet have an adequate system of

internal controls and is not exercising sufficient oversight of the program.

Inadequate documentation

FAS has not been sufficiently documenting program decisions. As we noted in the May 1988 report, FAS was not documenting the funding allocation decision process to clearly show how the funding criteria were applied and prioritized and the basis for those decisions.

Our current review indicates that FAS continues to make major funding decisions based on limited written information and relies on its marketing specialists to verbally explain the suitability of the applicants, the rationale for the recommended funding amounts, and other major program decisions. The marketing specialists are primarily responsible for reviewing the applications to the TEA program and writing summaries on each application. These summaries, which average four pages in length, include a brief discussion of what the applicant proposes to do with the requested funding amount. These summaries are then forwarded, with a recommendation from the Assistant Administrator for Commodity and Marketing Programs, through the Administrator, FAS, to the Undersecretary for International Affairs and Commodity Programs for final approval. We have been told by FAS officials that these

summaries are the main source of documentation for their TEA allocation decisions.

A review of all TEA summaries for funding for fiscal years 1989 and 1990 provides little insight on how FAS applies and prioritizes the criteria. We recognize that the decisions are based not only on the application criteria but also on such factors as balancing the needs of all commodity division requests. FAS officials told us that they do not have time to fully document program decisions. We believe that such documentation is essential to ensure accountability and fairness. As currently written, the summaries do not address the importance of the various criteria to funding decisions. For example, some participants that lack prior market development experience were denied participation in the program while others with a similar lack of experience received TEA funds. This is not to suggest that only those with experience should receive TEA funds, but that sufficient rationale should be provided for approving or denying participation and to explain variations in funding amounts approved. Other criteria which are mentioned most often but the importance of which seems to vary depending on the applicant are (1) the administrative capability of the organization to carry out the program, (2) the amount of damage suffered from unfair trade practices, (3) the extent to which the organization represents U.S. agricultural product interests, and (4) whether the commodity or product is in adequate supply.

The TEA summaries were improved for fiscal year 1990 by incorporating, on a more consistent basis, information on evaluation results and findings from the FAS Compliance Review Office. However, not all summaries included this information and we do not know whether there were no evaluation results or findings from the Compliance Review Office or whether they were not significant enough to be included in the decisions. Since FAS officials told us that these summaries are the main source of documentation for the funding allocation decision process, we believe that sufficient information should be included to enable an objective observer to understand how the process works and why decisions are made.

These summaries do not include information on funding received through the Cooperator program. Approximately half of the 46 not-for-profit TEA participants also receive funding through the Cooperator program and we saw little coordination between the two programs. Also, for fiscal year 1990, the TEA summaries do not include information on past allocations, approved budgets, expenses, and contribution amounts for each participant. While this information may be discussed in closed door meetings with the Assistant Administrator, we believe that it should be included in the summaries to ensure that the histories of the applicants are apparent.

Documentation is an essential part of an adequate system of internal controls. We believe that better documentation of the funding process and of other major program decisions is needed to improve accountability.

Participant contributions

We continue to be concerned that FAS is not requiring participant contributions and is not documenting the rationale for the amount and type of contributions participants are encouraged to provide to the program. Contributions may be in the form of cash or goods and services and may come from a third party as well as from the TEA participant. FAS officials continue to stress that contributions are not legislatively required and that a uniform standard cannot be applied to TEA participants, since their ability to contribute varies. We believe that since FAS is providing significant funding to the participants, FAS officials should explain in writing how they determine contribution amounts for each participant.

FAS officials told us that they are trying to establish a greater degree of consistency in setting contribution amounts without limiting participation; however, these rates continue to vary substantially. Several FAS officials told us that beginning

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with fiscal year 1989, FAS policy for the generic portion of the TEA program was that all TEA participants should contribute at least 5 percent in cash. However, there are no formal guidelines on this. In the branded portion of TEA, reimbursement rates vary among commodities. While FAS officials have said that they are attempting to establish a 50-percent reimbursement rate for all private firms promoting their own labels, some firms in practice are receiving a preferential reimbursement rate and FAS has yet to provide a suitable explanation for the disparate treatment.

TEA guidelines

During the first 3 years of the program, changes in the guidelines and updates on program operations were primarily communicated to the TEA participants through the Planning, Review, and Operations Committee (PROC) of the U.S. Agricultural Export Development Council. We criticized FAS' use of this committee in our May 1988 report because it did not include all TEA participants. The Council has since disbanded this committee and no alternative formal mechanism for communicating with participants has been established.

Agriculture's OIG, the Office of Management and Budget, and GAO had concluded that FAS should change the TEA guidelines to regulations. We believe that this would be a step toward improving

program administration. FAS officials in the past had told us that they did not believe that regulations should be established because flexibility is necessary when managing a market development program. However, GAO maintains that establishing regulations in place of the guidelines would eliminate much of the participants' confusion which is caused by changes made with little notice and by the differing guideline interpretations offered by program specialists. The establishment of regulations would improve communications between FAS and the participants by providing an opportunity for public comment.

Currently, FAS has considerable discretion in the operation of its market development programs. Formal regulations, requiring FAS to evaluate all comments, along with adequate documentation of program decisions, could counter the perception that some commodity organizations are favored over others. Because some commodity organizations have had long-term relationships with FAS and because of the increased funding provided in FAS programs, FAS needs to avoid even the perception of favoritism.

Because of these reasons and other concerns about program management raised by GAO and OIG, FAS has drafted proposed regulations for the TEA program and has submitted them to OMB for review.

APPENDIX I APPENDIX I

FAS Efforts to Evaluate the TEA Program

Our May 1988 report pointed out that (1) FAS was not uniformly requiring participants to evaluate their activities, (2) the TEA guidelines provided no guidance on how to make evaluations, and (3) FAS was not systematically tracking and using evaluation results.

Subsequently FAS established evaluation guidelines, effective for fiscal year 1989. To indicate its commitment to evaluating market development activities, FAS has been delaying approval of participants' activity plans until those plans include an explanation of how the participants will measure the effectiveness of their activities. While the new guidelines indicate types of evaluations and who is responsible for conducting them, they are not specific enough to prevent confusion among many participants. FAS application of the evaluation guidelines does not appear to be consistent. For example, some participants must submit quarterly evaluations while others are required to submit them only once a year.

In August 1988, FAS established an evaluation branch within the Marketing Programs Division. This branch was over a year old before it was fully staffed with 6 professional positions. FAS established this branch to oversee program evaluation of the TEA

and Cooperator programs. While it did establish general evaluation guidelines, this branch has done little to track and analyze evaluation results. This branch has no substantial coordinating or enforcing role with respect to the evaluation requirements, and there is no indication that it is planning to evaluate the success of the TEA program overall.

The Department of Agriculture is reviewing a proposed FAS reorganization which would include establishing a new office for planning and evaluation within the Marketing Programs Division. We believe such an office should take the lead in clarifying evaluation requirements, monitoring compliance with such requirements, analyzing the results of all participant evaluations, conducting evaluations of the overall success of the program, and doing cross-commodity and other types of analyses. This office should provide guidance to both the commodity divisions and the participants on using evaluations as an oversight and management tool. By continuously analyzing the impact of the TEA and Cooperator programs in the various markets, FAS may be in a better position to alter program direction to reflect current market conditions.

FAS continues to rely too heavily on an increase in exports as proof that the TEA program is a success. While some level of increased exports would be expected as a result of a large infusion

of resources into a targeted market, a simple increase in exports--which can be caused by a large number of other variables--is not sufficient proof of the success of the program.

Combine the TEA and Cooperator Programs

One way for FAS to improve the management of its market development programs could be to combine the TEA and Cooperator programs. Combining the two programs would probably be a more efficient use of FAS resources. Marketing specialists and other FAS officials presently spend their time dealing with the two programs separately since they operate under different deadlines. Little coordination exists between the two programs. When TEA funding levels are being discussed, there is no documentation on Cooperator funding received by the applicant or on the applicant's performance in the Cooperator program. FAS officials said that their staff is so busy with day to day operational and administrative issues that they have little time for documentation. Combining the two programs, or possibly establishing a new program to replace them, may help to overcome such inherent problems.

A combined TEA and Cooperator program would be able to maintain the same types of activities (consumer promotion, technical assistance, and trade servicing) but would continue to tailor them to the commodity or product being promoted. Such a

combined program could provide more complete and accurate information to management concerning the scope of market development activities worldwide.

Finally, combining both programs could help prevent duplication of effort, if all activities were under one program with one set of criteria. This, coupled with other corrective action on the part of FAS concerning management oversight, would inevitably lead to a more efficiently managed and more effective program.

Before the two programs could be combined, the following issues would need to be considered:

-- The merits of using generic and/or branded promotion and the percent of total funds that should be allocated to each type.

-- The amount of emphasis to place on exports representing high value products and/or bulk commodities.

-- The priority for providing funds for new market development and/or maintaining established markets.

-- The merits of allowing large, well established private firms to

participate and/or focusing resources more on helping small, new-to-market firms establish a foothold in the market.

-- The appropriate balance in the program between compensation for unfair trade practices and market development.

-- The establishment of criteria for the amount of time that participants could remain in the program before they would be expected to maintain their market presence on their own.

THE EXPORT ENHANCEMENT PROGRAM

Our current review is being conducted at the request of the Chairman, House Committee on Agriculture; Congressman Conte, the Ranking Minority member of the House Committee on Appropriations; and Congressman Schumer. It updates and expands upon the issues addressed in our March 1987 report[2].

Since 1987, conditions under which the EEP operates have changed considerably. The number of targeted countries has increased from 40 to 65. Total EEP sales have risen from $1.3 billion to over $9 billion as of February 8, 1990, and the market value of EEP bonus awards has grown from $868 million to over $2.7 billion. Last year, the world supply of wheat became relatively tight due to adverse weather conditions and decisions by some producing countries to reduce production. World prices for wheat have risen as a result. The U.S. government is now using EEP more selectively, and it continues to emphasize the program's importance as a trade negotiating tool.

Preliminary findings resulting from our EEP review were presented in our July 31, 1989 testimony before the Subcommittee on

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[2]Implementation of the Agricultural Export Enhancement Program (GAO/NSIAD-87-74BR).

Wheat, Soybeans, and Feed Grains, House Committee on Agriculture. In September 1989, the Department of Agriculture's Office of Inspector General (OIG) issued a report[3] which contained information on EEP's administration and offered recommendations for strengthening program effectiveness. On November 16, 1989, we testified again on our EEP work to date before the Subcommittees on Department Operations, Research and Foreign Agriculture; Tobacco and Peanuts; and Wheat, Soybeans, and Feed Grains, House Committee on Agriculture.

On February 7, 1990 we issued a letter report[4] to the FAS Administrator on apparent program bonus overpayments resulting from weaknesses in internal controls over the bonus payment process. In addition, on February 12, 1990 we issued a fact sheet[5] containing information on activity under the program from May 1985 through February 28, 1989, which represents the majority of activity under the program to date. At that time, total EEP sales were valued at $6.8 billion, of which wheat represented over 80 percent. Five countries--the Soviet Union, China, Algeria, Egypt, and Morocco--had bought approximately 1.4 billion bushels of wheat under the

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[3]Audit of the Foreign Agricultural Service Export Enhancement Program, Audit Report No. 07099-18 Hy.

[4]INTERNATIONAL TRADE: Export Enhancement Program Bonus Overpayments, (GAO/NSIAD-90-83).

[5]INTERNATIONAL TRADE: Activity Under the Export Enhancement Program, (GAO/NSIAD-90-59FS).

program, about 74 percent of the 1.9 billion bushels sold. The remaining EEP commodity sales were in wheat flour, barley, barley malt, semolina, rice, vegetable oil, sorghum, frozen poultry, table eggs, poultry feed, and dairy cattle. Seventy-three exporters had received over $2.6 billion worth of surplus U.S. agricultural commodities as bonuses. Four exporters--Cargill, Continental, Louis Dreyfus, and Artfer--had each received over $100 million in bonuses (60 percent of all bonus awards); Cargill and Continental each received over $400 million in bonuses.

In response to concerns raised by GAO and OIG, FAS has been working to improve the program. For example, criteria for determining the overall program level and for selecting commodities and countries to target for EEP sales have been revised and were published in the Federal Register on November 27, 1989. In addition, FAS recently drafted proposed regulations dealing with EEP operations and is preparing written policies and guidelines to address some of the identified problems. We are now in the process of finalizing a report on the changing role of the EEP, its effect on world agricultural trade, and the need for program operation and management improvements. As part of this effort, we intend to review the proposed regulations and program changes.

EEP's Impact on U.S. Agricultural Exports

In the last several years, U.S. agricultural exports have increased significantly. However, as we previously reported it is difficult to determine exactly how much of these increases were due to EEP. EEP's effect cannot be easily isolated from that of other policy and economic variables which have contributed to increased agricultural exports--lower loan rates, availability of export financing and other U.S. government assistance, depreciation of the U.S. dollar against major competitor currencies, production shortfalls, and other changes in global economic conditions. Recent studies estimate that U.S. agricultural exports have increased due to EEP, but they differ on the magnitude. The additionality estimates range from 2 to 30 percent and are greatly influenced by the assumptions made and the time period covered.

Furthermore, the fact that the EEP is "targeted" adds more complications in determining its effect. While exports may increase in the targeted markets, the overall effect on U.S. exports worldwide is uncertain. Competing suppliers may respond by displacing potential U.S. sales in untargeted markets. In addition, as the OIG concluded, non-targeted countries may have reduced their U.S. purchases, thereby creating the need to target those countries to regain lost market shares.

EEP does appear to have been critical to making sales in certain markets, such as wheat sales to the Soviet Union and China. During periods of surplus supplies on the world market, these importing countries took advantage of competition among exporters to obtain the best possible price and terms. Without EEP to make U.S. exports competitively priced, it is highly unlikely that these sales would have taken place. In addition, officials in Algeria, Egypt, Jordan, and Iraq told us that EEP was essential to enable U.S. exporters to make sales because these countries are "price buyers" (i.e. they buy at the best price available regardless of the source). They also noted that many EEP sales depended on the availability of U.S. export credit guarantees.

Changes in EEP Targeting Strategies

The EEP was designed to be targeted and discretionary rather than an across-the-board program. Proposals for EEP subsidies were to "target a specific market to challenge only the competitors who overtly subsidize their exports," namely the European Community (EC). Originally, the EEP's primary targets were countries that made significant purchases of subsidized EC exports. However, over time the program expanded to include countries that had a small EC market presence and then to countries where the EC was only contemplating a presence. As the

EEP displaced the EC in one market, the EC turned to another country's market, making that country eligible for EEP benefits as well. The EEP grew to 65 targeted countries in 4 years.

Perhaps the most controversial aspects of the EEP targeting strategy were the administration's decisions regarding the Soviet Union. That country was initially excluded from the program despite the fact that the EC's share of the Soviet wheat market rose from 5 to 22 percent from the 1981 to the 1985 crop year. Agriculture initially claimed that the Soviet Union was excluded because the non-subsidizing competitors had about a 48-percent share of the market in crop year 1985. Non-subsidizers, however, had equal or greater shares of other markets targeted under the EEP, such as Egypt, Iraq, Jordan, and Sri Lanka. The Soviet Union had been excluded from the program until August 1, 1986, for foreign policy reasons. It was then made eligible for EEP sales and has since become the largest importer under the program.

Impact of EEP on Competitors

During our review, Australian and Canadian officials told us that their countries have been adversely affected by EEP, both in terms of lower prices for their commodities and reduced market shares. Moreover, the OIG found that while the EC's wheat market shares have generally increased since the EEP's inception, those of

Australia, Argentina, and Canada have decreased. While the OIG noted that the decreased market shares could be the result of lower wheat supplies, it cautioned that the continuation of EEP could adversely affect these countries' exports should their production increase.

Australia

Australia has been most vocal in its opposition to the EEP, stating that EEP has adversely affected its wheat exports. While Australian government and farm industry representatives and U.S. Agriculture officials agree that EEP contributed to the depression of world wheat prices between 1985 and 1988 and, consequently, to the reduction in Australian wheat export earnings, there is no consensus on the extent of EEP's effect.

According to a recently released Australian study,[6] the EEP has cost Australian wheat growers between $150 million and $238 million, due to reduced average prices on wheat exports and a consequential decline in wheat production. The study points out that in 1987 the estimated cost to the Australian wheat industry was far greater than to the EC's, because exports to EEP-targeted

[6]U.S. Grain Policies and the World Market, Policy Monograph No. 4, Australian Bureau of Agricultural and Resource Economics, released in October 1989.

markets constituted a far larger proportion of Australia's total production.

Australian officials told us that the decline in export prices encouraged producers to move out of wheat production; plantings fell from about 12 million hectares in 1984/1985 to about 9 million hectares in 1988/1989. Australian resources previously employed in grain production flowed into the livestock sector and into alternative crops, such as legumes. They acknowledged that the EEP is only one of a number of factors contributing to the decline in Australian wheat export earnings. However, in their opinion the EEP has clearly had a significant adverse impact on Australian agricultural exports.

U.S. Agriculture officials stated that the EEP's effects on wheat prices were minimal to begin with and were mitigated by the Australian government's guaranteed price mechanism and devaluation of the Australian dollar in 1985. They attribute recent declines in Australian wheat production to historically high wool prices during the mid-1980s, which lured farmers out of wheat and into wool production.

Canada

Canadian officials could not demonstrate a loss in market share directly related to EEP; instead they criticized EEP's price depressing effect and the resultant decreased revenue from agricultural exports. They also complained that EEP's targeting strategy was inconsistent and questioned its continued use for commodities which were in short supply. For example, the officials noted that Canada, not the EC, had established major wheat markets in Iraq, Colombia, Mexico, and the Philippines, yet they were all targeted under EEP. In addition, Saudi Arabia was a large importer of barley from many sources, not just the EC. When an EEP initiative for barley was announced, the whole balance of the barley trade was upset.

Canadian officials also questioned EEP wheat sales during the last 2 years when supplies were greatly reduced due to worldwide drought conditions. In their view, the United States was the "only game in town," yet it sold EEP wheat to China and the Soviet Union, the largest importers of wheat in the world. Canadian officials viewed the use of EEP as "overkill" in these cases.

Despite the perceived negative effects of the EEP on export strategies, world price, and the balance of trade, Canada has derived some indirect benefits. In the last year, Canadian

exports of rapeseed oil, or canola, have become very competitive in U.S. markets partly because of high U.S. domestic vegetable oil prices driven up (or artificially supported) by EEP. According to Canadian officials, annual sales of vegetable oil to the United States have increased sixfold. In addition, U.S. livestock growers have been paying higher feed grain prices, driving up the cost of U.S. meat products. As a result, Canadian pork products are more competitive in the U.S. domestic market.

Program Operations and Management

We recognize the difficulty in administering a program as complex as the EEP, as evidenced by the number of procedures required to manage program operations. We reviewed these procedures and found problems in four major areas: (1) the proposal process, (2) price and bonus setting, (3) exporter qualification, and (4) the bonus payment process.

Proposal process

FAS processes each EEP targeting proposal through one of three different divisions depending on the commodity. Once these divisions have analyzed a proposal it is sent to FAS management for review, and then to Agriculture's Under Secretary for International Affairs and Commodity Programs. Should the Under Secretary approve

the proposal, it is sent through an interagency approval process and, if accepted, announced to exporters.

We found that while each commodity division tracks its own proposals, FAS has not centrally track the progress of these proposals from the moment they are received to the time they are either accepted or rejected. Although some documentation exists which discusses reasons for a proposal's acceptance or rejection, the proposal's origin and the time that it takes to move within the process cannot always be determined. We believe that FAS should establish a centralized tracking system which will document the progress of all proposals from the time they are submitted until the time they are accepted or rejected. This system should allow FAS to provide the full history and current status of any proposal when an inquiry is made.

Setting price and bonus levels

Our ongoing review indicates that FAS does not sufficiently document the specific figures used to calculate the final price and bonus levels. In addition, the OIG reported that FAS "did not have written policies and procedures for, or sufficient documentation to support, world price determinations and bonus calculations." As a result, it is difficult for an independent reviewer to determine whether bonus payments are excessive.

FAS gathers information from a variety of sources to use in calculating price and bonus levels. We interviewed a number of individuals who provide EC price and world freight information and we reviewed documents they sent to FAS. We believe that FAS program officials receive the information necessary to make informed and effective price and bonus decisions; however, they do not document adjustments made to this information when calculating price and bonus levels. Although FAS officials prepare price sheets which list each of the figures used in price and bonus calculations, they do not provide either narrative or statistical support to explain how they arrived at these figures.

The FAS Administrator, in his February 6, 1990 testimony, stated that FAS has developed written policies and guidelines to calculate bonuses. Under these guidelines, any adjustments made to price quotes must be documented. We intend to review these policies and guidelines and evaluate whether they adequately address the problem.

Exporter qualification requirements

FAS has established certain qualification requirements for exporters wishing to participate in EEP. For example, exporters are required to have sales contracts with importers prior to

submitting bids on EEP sales. However, prior to July 1988, FAS had not been requiring exporters to submit evidence of sales contracts. Beginning in July 1988, FAS required such proof prior to bidding only on EEP dairy cattle sales. The recent OIG report recommended that FAS define minimum requirements for a properly executed sales contract and extend the requirement for proof to all EEP commodities. In December 1989, FAS clarified the definition of a properly executed sales contract, but did not extend the requirement of proof to sales of the other eleven commodities because FAS contends that it would cause serious delay in the review and award of bonuses and would greatly tax existing staff resources.

We believe that requiring exporters to document the existence of sales contracts prior to submitting bids represents a sound control mechanism. In addition, we believe that FAS should randomly verify that the sales contracts are valid.

Bonus payment procedures

Our review of EEP indicated that internal controls over the bonus payment process were not adequate to ensure that bonus payments were properly made. During our review, we examined contract files kept by the Agricultural Stabilization and Conservation Service (ASCS) in Kansas City. We also obtained and

examined a copy of the data base jointly developed by FAS and ASCS which contains contract and payment information and is maintained by ASCS in Kansas City. We found cases where exporters had apparently received overpayments. These overpayments were made because FAS did not have procedures set up to identify and verify when an exporter had received the maximum bonus amount allowed under the contract. We recommended that FAS develop sufficient internal controls over the bonus payment process to safeguard against future overpayments.

The Future of EEP

In today's tighter wheat market, we believe that EEP is appropriately being used more selectively. It remains an important trade policy tool if for no other reason than that unilaterally abandoning it would weaken the U.S. negotiating position with the EC. However, because of large, continuing EC export subsidies, funding EEP at adequate levels is important to maintaining the program's credibility as a trade policy tool. If market conditions change, EEP could again be used aggressively, potentially increasing the cost of the EC's subsidy program and applying pressure to negotiate.

GSM-102/103 EXPORT CREDIT GUARANTEE PROGRAMS

We are currently conducting a review at the request of the Chairman, Subcommittee on Tobacco and Peanuts, House Committee on Agriculture, of the Commodity Credit Corporation's (CCC) GSM-102 and 103 Export Credit Guarantee Programs. These programs are intended to maintain or increase U.S. agricultural commodity exports by guaranteeing exporters or their assignees that they will be repaid for credit sales made to purchasers in foreign countries. Should a foreign buyer default, CCC will make good on the payment and then try to recoup the loss from the foreign buyer.

The two CCC programs are administered by the Foreign Agricultural Service (FAS). In June 1988, we issued a report[7] on these programs in which we concluded that FAS was not adequately managing them. More specifically, we stated that CCC had not adequately (1) accounted for outstanding guarantees, (2) ensured that guarantees were being used for U.S. agricultural commodities, and (3) provided guidance to program users. We recommended that the Secretary of Agriculture direct the General Sales Manager, FAS, to

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[7]Commodity Credit Corporation's Export Credit Guarantee Programs (GAO/NSIAD-88-194).

-- enforce compliance with the requirement that exporters submit complete reports of exports to ensure accurate accounting of outstanding guarantees;

-- design, develop, test, and implement internal controls, including random on-site verifications, to ensure that loan guarantees are used to obtain U.S. agricultural commodities;

-- clarify program regulations with specific definitions for a U.S. agricultural commodity and a firm sale, and require acknowledgement of these requirements on guarantee applications; and

-- provide timely and accurate decisions on document revisions requested by exporters or their assignees.

We are pleased to report that FAS has taken action on some of our recommendations. However, we believe that further FAS action is needed to address our original concerns about implementing internal controls and defining an agricultural commodity. Actions are still needed on our concerns about the timely handling of revisions to GSM documentation. Finally, we have comments to make about the participation of U.S. financial institutions in the GSM programs.

Actions Taken on Previous GAO Recommendations

FAS has acted on our recommendations to improve the accounting of outstanding guarantees and to establish internal controls.

When exporters fail to submit the required export sale loan repayment schedules for GSM-102/103 guarantees outstanding, the Agricultural Stabilization and Conservation Service (ASCS) estimates its own repayment schedules. ASCS officials, who perform CCC's accounting services, use the terms identified on the available GSM sale documentation and the current London Interbank Offer Rate (LIBOR) plus one quarter of one percent, to compute the repayment schedule. If the official repayment schedule is later received, ASCS will make adjustments as necessary. According to ASCS officials, only minor adjustments have been required to date.

FAS has established some internal controls over the programs. Effective October 1, 1988, when exporters register a sale, they must certify that none of the value of that sale is foreign. The validity of the certification statements will be spot-checked by the FAS Compliance Review Office, which has been given additional resources for reviewing compliance with this and other GSM-102/103 regulations.

We believe that the actions taken by FAS are important steps in improving management of the GSM-102/103 programs. However, much more is needed before firm control over program operations is achieved.

Further Improvements Needed in Internal Controls

Recent work conducted by the Agriculture's OIG and GAO has shown that further internal controls over the GSM-102/103 programs are necessary. A September 29, 1989, OIG report[8] stated that compliance review efforts are needed and that suspension and debarment actions should be used whenever exporters are found to be in violation of program regulations. Our review also indicates that controls are not in place to ensure that exporters are complying with applicable regulations.

Additional compliance review efforts are needed

The OIG report stated that "U.S. exporters are participating in a $6 billion program without FAS or CCC conducting a review, or periodic check, to make sure the program is operating in accordance with applicable laws and regulations." However, some compliance review efforts have now been undertaken. Nevertheless,

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[8]Audit of the Foreign Agricultural Service Exports of the Foreign Commodities Under GSM 102/103, Audit Report No. 07099-21-Hy.

our review work indicates that more compliance review efforts are necessary.

Our June 1988 report recommendation on internal controls called for random, on-site verifications to ensure that U.S. agricultural exports are being financed by the guarantee programs. We believe this is an important control because CCC and FAS officials deal only with the paperwork aspects of the guarantee programs. Without physically inspecting the commodities being exported at both U.S. export terminals and foreign import terminals, at least on a spot-check basis, CCC and FAS officials cannot be certain that U.S. agricultural commodities are being financed under the programs.

With assistance from U.S. Customs, we made random inspections at U.S. ports holding seven tobacco shipments destined for export under the GSM programs. In one instance, Customs officials believe that over 80 percent of the tobacco in that sale was of foreign origin. In another instance, we visited an exporter who was participating in the GSM-102 program for grocery items and found that he was preparing for shipment several items that contained foreign origin content, including coffee filters manufactured in Canada.

As a further assurance that U.S. agricultural commodities financed under the GSM-102/103 programs are being delivered to their intended destinations, FAS should conduct periodic spot inspections at foreign ports. This could be accomplished by FAS staff assigned overseas or by FAS officials, for example, compliance review staff, in travel status. In the past, FAS officials have stated that time and resources were not available for this type of monitoring and oversight.

According to foreign government officials, random checks at foreign ports are feasible. While conducting work at four overseas locations this past summer, we asked foreign government officials if it would be possible for FAS officials to inspect the off-loading of GSM commodities. With one exception, we were told that FAS access to the ports for inspection would be allowed. In that one instance, we were advised that obtaining permission for access would be difficult because the port is used for closely guarded military operations as well as civilian operations.

CCC should take suspension or debarment actions where appropriate

The OIG report stated that FAS should use established compliance measures, such as suspension or debarment, to discourage U.S. exporters from blending or combining foreign origin agricultural commodities or products with U.S. commodities for export under the GSM programs.

Considerable attention has been focused on the suspension and debarment issue, because a number of tobacco exporters, who have shipped large quantities of foreign tobacco as U.S. tobacco under the export credit guarantee programs, continue to participate in the programs. In prior testimony we noted that FAS does not intend to initiate suspension or debarment proceedings against those tobacco exporters while the U.S. Attorney's investigation continues, so as not to impair his case. However, in May of last year, the Director of CCC's Operations Division wrote letters to 31 exporting companies, representing 92 different GSM guarantees, stating that as a result of the OIG audit, it had been determined that the exporters may have violated GSM program requirements by exporting non-U.S. commodities. The letters put the exporters on notice that they may be held liable to CCC for any amounts paid or that may be paid by CCC under the guarantees.

When significant GSM program violations occur, we believe that suspension or debarment proceedings would be the appropriate agency response and that Agriculture should be prepared to initiate such actions. According to FAS officials, they will take appropriate actions in the future when evidence is developed that shows that violations have occurred. New compliance review efforts could assist in identifying program violators and documenting the evidence of wrongdoing.

An Eligible Agricultural Commodity Still Needs to be Defined

Our June 1988 report included a recommendation concerning the need for defining eligible agricultural commodities, especially value added products. Agriculture's OIG arrived at the same conclusion.

Until September 21, 1988, FAS general policy was to provide export credit guarantee coverage under the GSM-102/103 programs for only those commodities or products containing 100 percent U.S. origin content. Nevertheless, while this policy was in effect, credit guarantees were provided for exports of tobacco that were subsequently revealed to contain substantial amounts of foreign tobacco. Also other products such as grocery items, leather hides and skins, and soft drink concentrates containing some degree of foreign origin content were provided guarantee coverage under the programs.

On September 21, 1988, FAS announced a new policy that provided credit guarantees for the export of agricultural products that were a mixture of U.S. and foreign origin. The new policy allowed the value of exports under the programs to include up to 25 percent imported agricultural commodities. However, only the value of the U.S. portion of the agricultural commodities could receive the CCC guarantee. This proved to be a highly contentious

policy change. Forty members of Congress questioned this new policy and wrote to the Secretary of Agriculture on October 12, 1988, asking that it be reversed.

On February 15, 1989, FAS discontinued the new policy and notified exporters that as of February 16, they are required to certify that none of the value of their commodities is foreign. Otherwise, the commodities are not eligible for program coverage. This policy is still in effect; however, when this change was made, FAS also announced that it would reevaluate the content issue. In a related matter, Agriculture's General Counsel stated in May 1989 that exports which contain small amounts of foreign, but non-agricultural, products could be eligible for program coverage.

Based on our work thus far, we believe that the current zero percent foreign value content policy may be appropriate for exports of bulk commodities such as wheat, corn, barley, and tobacco. However, that policy may be inappropriate for processed agricultural products, many of which may contain small amounts of foreign origin ingredients. For example, powdered infant formula, containing foreign origin ingredients that account for only 2 percent of the total value of the product, is excluded from coverage under the current policy, as is soft drink concentrate with a small percentage of foreign content. A comprehensive

evaluation of the foreign content issue should include an assessment of how to handle such products.

One way to achieve a comprehensive evaluation of the policy issues is to establish a working group of representatives of interested parties to review and debate the issues and to develop options for FAS consideration. FAS established an internal working group to deal with the issue. FAS solicited comments in the Federal Register and met once with selected industry representatives to obtain others' opinions. We feel this effort should be expanded to include full participation by these and other interested parties.

Action Still Needed on the Timely Handling of Revisions to GSM Documentation

Our June 1988 report suggested that CCC be more flexible with exporters and financial institutions when changes to GSM documentation are necessary. We cited an example of a U.S. bank that spent 8 months trying to get CCC to correct the name of a foreign bank placed on the guarantee document by CCC officials. This change was very important to the U.S. bank because a CCC official had stated that guarantees could become invalid if the documentation was not properly prepared. CCC, rather than making the correction itself, wanted the U.S. bank to obtain written assurance from the foreign bank that it would honor its obligations

even though the bank was incorrectly named on the document. Eventually, CCC did make the correction, but the U.S. bank officials claimed they spent too much time and effort on an error that was made by CCC.

During recent discussions with several exporters and U.S. financial institutions participating in the GSM programs, we were told of several other similar instances that frustrated exporters and bank officials. In one case, documentation prepared by a U.S. bank regarding a repayment due in three equal installments was not accepted by CCC because of the way in which the bank rounded the cents on a whole dollar. Apparently the bank showed that 34 cents would be collected as part of the first installment and 33 cents as part of the second and third installments. CCC returned the documentation and requested that 33 cents be shown as part of the first and second installments and 34 cents on the third.

Participation of Financial Institutions in the GSM Programs

The success of the GSM-102/103 programs depends greatly on the active participation of financial institutions, which pay out the $4 billion to $6 billion in GSM loans each year, providing direct credit to the foreign buyers. According to CCC records, two financial institutions--The National Bank for Cooperatives and the Banca Nazionale del Lavoro--have been significant program

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participants. Together, they have provided approximately one-third of the money loaned under GSM-102 during the past 5 years and approximately three-fourths of the money loaned under GSM-103 during the past 3 years. The remainder of the program loans have been provided by numerous other financial institutions, each loaning smaller amounts of money.

From discussions with officials of several of these financial institutions, it appears that the government guaranteed loan business is not particularly profitable and is therefore attractive only to (1) U.S. financial institutions specializing in government loans or (2) foreign-owned banks trying to establish themselves in the United States.

The National Bank for Cooperatives

The National Bank for Cooperatives specializes in government loans. Officials there said that over 90 percent of their business involves loans with CCC, the Export-Import Bank, or some other government agency loan program. The Bank was established through federal legislation in 1933 to finance sales by U.S. cooperative farmer organizations. Today it is wholly owned by its cooperative members. The Bank is a member of the Farm Credit System, which has U.S. government agency status. Privileges derived from its agency status allow the Farm Credit System to

raise or obtain funds at a lower cost than commercial banks. Therefore, as a member of the Farm Credit System, the National Bank for Cooperatives obtains funds at a lower cost and obtains a higher profit margin in the government loan business than would commercial banks.

Bank officials told us that, in spite of operational problems, they believe the GSM programs are two of the best programs ever established to facilitate the export of U.S. goods. They said that the Bank plans to continue its participation in the programs.

Banca Nazionale del Lavoro

In the near future we will begin a study in response to a request from the Subcommittee on Criminal Justice, House Committee on the Judiciary, to evaluate the extent to which individual financial institutions participate in the GSM programs and to assess the potential impact that such participation may have on CCC's guarantee liability. In particular, we will look at the Banca Nazionale del Lavoro and its involvement with Iraq.

Banca Nazionale del Lavoro is Italy's largest state-owned bank. It is headquartered in Rome but has several branches in the United States. The New York City branch is responsible for North

American operations, and its Atlanta, Georgia, branch has provided the GSM loans. Officials of the Bank's Atlanta branch told us that the majority of their business involves GSM loans to Iraq. In the past, Iraq has imported up to $1.0 billion worth of U.S. agricultural commodities annually under the GSM-102/103 program.

Recently, the bank has been embroiled in controversy. According to bank officials, its Atlanta branch loaned about $2.0 billion to foreign buyers in Iraq of which only a fraction was authorized by higher level bank officials. They told us that some of these loans, amounting to about $830 million, were made under the GSM-102/103 programs and of that amount, only about $130 million were authorized. They said other loans to Iraq were made outside government programs. The unauthorized loans and the adequacy of the bank's internal controls are currently being investigated by several U.S. and Italian agencies. The status of the investigation has not been made public.

Bank officials are concerned about having such a large exposure in one country; they told us that although Iraq has been making regular payments and has never defaulted, it is classified by many banks as a high credit risk due to its war with Iran and the resulting depletion of its foreign exchange reserves.

We were told by officials of the New York branch of Banca Nazionale del Lavoro that officials in Rome will have to decide whether or not the bank will continue to participate in the program, including making new GSM loans to Iraq.

The Banca Nazionale del Lavoro's problems may or may not result in CCC payouts under its loan guarantee programs, but they raise a question concerning the wisdom of allowing one bank to participate to such a large extent in the programs, especially if that bank's loan exposure is going to be concentrated in a single country. In light of these problems, FAS may want to examine the issue of bank participation in the programs.

The CHAIRMAN. Ms. Brookins and Mr. McCoy, please join us at the table. Your statements will be made a part of the record, but I would like to ask just a couple questions, and the first one for Ms. Brookins. It is good to see you again.

STATEMENT OF CAROL BROOKINS, PRESIDENT, WORLD PERSPECTIVES, INC., WASHINGTON, DC

The CHAIRMAN. As you evaluate the markets today, what are some of the most promising markets in the developing world for our products?

Ms. BROOKINS. I think everyone is focused right now on East Europe because of the short-term benefits of the tremendous needs for food products in Eastern Europe, but they could end up being our competitors in some areas down the road. Our major market potential is in Asia—South Asia, East Asia, Southeast Asia—the developing world generally, North Africa, the Middle East, and we should not forget about Latin America. I base this not only on demographic trends where 60 percent of the world's population increase will be in Asia by the year 2000 so it is 60 percent of 1 billion people. I also base it on demographic trends, on economic trends, on dynamic economies that are growing, that are large, where protein is a very small part of the diet, animal protein, and where they have the purchasing power. So I think we have tremendous opportunities to penetrate these markets if we can use our policies wisely. And additionally, if we can keep their protectionism from rising.

The CHAIRMAN. What about market development programs? Do we have them in those areas?

Ms. BROOKINS. We have market development programs in those areas, but our market development programs are a little bit of a smorgasbord. I think that your own staff has studied this greatly, and I think we really need to revise the way we structure our market development programs so there is much more coherence all the way from grant in title II up through title I, commercial GSM-103, GSM-102 credits, all the way up to commercial sales. And also I think we need to seriously look at multiyear programming in order to make our market development much more coherent.

The CHAIRMAN. I would happily underscore, especially that last part. I think we do, too. I look at other countries and their determination, their plans, and they go in for the long-term. And we ought to be doing exactly the same thing. Let me ask you this, though, you mentioned Asia, Latin America, using those two as examples, if we have exports there, what is their capacity to pay or is that not also a smorgasbord as you look at the area? Some have a very good capacity. Some have none.

Ms. BROOKINS. That is correct. In many Latin countries and Central American countries there is not a lot of money. They have very high debt. They have low economic growth and growing populations. So they have very poor ability to pay. And I think we have to put those countries in the proper categories of aid, of real food aid if we feel that it is useful. In Asian countries our problem is not so much the capacity, ability to pay, in many areas. It is protectionism that we have to address.

We look at Japan as the perfect example of a very protectionist agricultural economy and we have other countries in Asia that are catching the Japanese and the European disease, countries like Korea and Taiwan, who now that they have become wealthy would like to begin to put protectionist barriers and have already started these for their agricultural producers. The same thing is true in Indonesia, Thailand, even India, where there is very good potential for market growth. We have to negotiate hard to take those barriers down because they do have the economic ability to pay.

The CHAIRMAN. In Japan, we had our negotiation on the meat program. Would you consider that a success?

Ms. BROOKINS. Yes, I would, and I think it is a very important step forward in moving the European Community toward the objectives that we have set forth in the Uruguay round. The fact that Japan has done it means that other countries will see that it can be done.

The CHAIRMAN. What do you see with the new government in Japan, or is that going to really make that much difference?

Ms. BROOKINS. I think they are going to complain. The LDP will complain that because they have lost votes that they are now less able to make the hard economic and trade choices that we are going to demand on them. But I think when push comes to shove in the Uruguay round, if that is what you are referring to, that they will have to come onboard because the farmers are going to have to go along with what is good for Japanese industry. And I think Japanese industry needs the open market in the United States.

[The prepared statement of Ms. Brookins follows:]

PREPARED STATEMENT OF CAROL BROOKINS, PRESIDENT, WORLD PERSPECTIVES, INC., WASHINGTON, DC

Mr. Chairman and members of the committee:

My name is Carol Brookins. I am President of World Perspectives, Incorporated, a Washington-based analytical and consulting company which specializes in agricultural and trade issues.

I appreciate the opportunity to testify before this hearing today on the subject of our agricultural trade, as you begin the important work of formulating the 1990 farm bill.

INTRODUCTION

You are writing this legislation at a very crucial time for American agriculture. Despite the hardships caused by 2 year's of drought, American agriculture is on the upswing. We have generally recovered from the severe depression that caused serious harm to our farmers, our agricultural structure and our economy earlier in this decade.

Many of the policies that were enacted in the 1985 Food Security Act have helped us improve our export competitiveness, and now our farm products are moving to markets rather than to storage bins. Our competitors have now agreed to seriously negotiate with us agricultural trade policy reform—both bilaterally and in the Uruguay Round of multilateral trade negotiations (MTN).

Yet, there are serious challenges that still face our farmers and agricultural sector. First, an improved world market for cereals, soybeans, dairy and sugar—among other commodities—means that the momentum for agricultural policy reform in the Uruguay Round may be reduced.

Second, many developing countries who have the greatest potential to expand their consumption of food products remain in serious economic recession and carry heavy debt; their purchasing power in some cases is still declining.

Third, the dramatic opening of East Europe politically and economically presents new challenges and opportunities for agricultural producers and exporters—as does

the new competitive position of a unified European Community marketplace under the 1992 process.

Fourth, environmental policies may alter the way that we produce, process and market food in the future; this will affect the cost of production and our relative competitiveness in global markets.

Fifth, macroeconomic imbalances continue to threaten the longest postwar recovery in our history and the competitiveness of our farm sector in global markets as we depend heavily on foreign capital and retain high real interest rates.

More specifically, pressures to reduce our budget deficit will force us to make choices in how much we can afford to spend on our farm sector and on specific farm policy priorities. Frankly speaking, the reality of reducing our budget deficit makes our competitors question whether we really will have "deep pockets" in spending Federal money to support our agricultural exports and counter their unfair subsidies.

All these questions must be addressed in the 1990 farm bill and other policy decisions in a way which will enhance rather than impede our farm sector. Our legislation must provide the policy structure which will allow us to continue to build American agriculture, to strengthen our rural economy, to increase export markets and to open up new, non-traditional uses for our farm products.

Agricultural Trade Considerations

I would like to specifically address this morning the very crucial qfoundation of our agricultural prosperity: America's ability to expand its export market position.

The simple truth is that without export market growth, America's agricultural sector will decline. Our consumption of food is rising by less than one-half of 1 percentage point annually. This means obviously that we are not increasing our consumption rapidly enough to keep up with our productivity gains. With flat population growth and an aging country, I see no prospect for any change in this outlook.

America's farmers suffered greatly during the collapse of farm markets in the last decade. Why did this occur? Because we were not competitive in export markets. If anyone doubts the importance of our agricultural exports, they should look at the chart that was done, which shows agricultural exports and changes in farm land values (Chart 1). The similarity is striking. What this tells me is that as exports go, so goes the equity base of U.S. agriculture.

We also know that demand for agricultural products in the world will be rising over this next decade. The world is focused now on East Europe, where consumers are demanding better quality in their diets and more abundant food supplies. In fact, one of our military officials told me that his Soviet counterparts said that "food, food and food" is the key to perestroika. President Gorbachev's greatest priority is improving the delivery of food to the population. So it is throughout East Europe, and even in the tightly controlled Chinese system. China's leaders have put agricultural development as their highest investment priority.

As we look at our future markets for agricultural trade, the Soviet Union and East Europe are very important. However, as they improve their economies and build market systems, they will improve their production of grains and other agricultural goods. Several of these countries were traditional exporters in the past; we must not forget that the Soviet grain buying agency "Exportkhleb" means "export bread". The Soviets were major grain exporters from the 18th century up into the 1960's.

I am not discounting the potential importance of these markets for our grain, protein and higher value commodities. We must do everything in our power to actively benefit from these trade opportunities. However, these countries have aging populations, relatively high aggregate levels of basic food consumption and flat population growth trends (Table I East Europe).

Our greatest opportunities for agricultural trade growth as we move into the 21st century will be throughout Asia, and in the developing world. Seventy-five percent of the world population today lives in the developing world—around 4 billion people. This will rise to 80 percent, and nearly 7 billion people by the year 2025.

Looking at a shorter time horizon, we will have 1 billion more mouths to feed by the year 2000; 60 percent of those people will be born in Asia (Table II). Population growth in East Asia, including Japan, the fast-growing NIEs (Newly Industrialized Economies—Hong Kong, Korea, Singapore, and Taiwan), and China will rise by more than 10 percent. The population of Southeast Asia will expand by 20 percent, led by the ASEAN countries of Indonesia, Malaysia, Thailand and Philippines. These are dynamic, accelerating economies with close to 40 percent of the population under 15 years of age and incomes rising rapidly.

Even in South Asia—where the population will rise by 20 percent to more than 1.3 billion by the year 2000—economic growth is improving. India's population of more 825 million today, for example, includes an estimated 250 million in the "middle class". The tables at the back of my remarks give a snapshot view which shows the economic potential for Asia (Table III).

I do not mean to focus entirely on Asia, because there are great opportunities for us as well in developing economies across North Africa and Middle East, in Latin America and even some countries in Sub-Saharan Africa. Latin America is particularly important to us; this is our natural marketplace and there will be more than 100 million more people in this part of our hemisphere within 10 years.

The developing world can present substantial new market growth for us in the 21st century, if we use our policy tools and assistance wisely today. With the trend toward greater economic and political freedom—and away from centrally planned State control—we should see higher economic growth rates as countries and individuals use land, capital and human resources more efficiently.

Recommendations

The questions you face as you write legislation affecting America's agricultural export potential is how to best capitalize on these dynamical changes, how to maximize our own resources in developing markets and how to generate income from trade.

I have a few suggestions in this regard:

First, we must continue our export subsidy programs until or unless our negotiating partners agree to reduce theirs and we can move agricultural products on a level playing field into world markets. However, we should ensure that the operation of EEP results in the least possible distortion of normal commercial trade decisions and traditional forward buying practices.

Second, we must review our food aid and market development programs to ensure that they are targeted toward the right markets and toward the appropriate requirements. For example, we might consider a graduated process for moving countries from Title II donations up through intermediate and short-term credit guarantees to full commercial buyers. In this context,I would like to see us move our market development programming to a multiyear basis.

Additionally, we need to reform the current operation of Public Law 480. It is too complex and too burdened by requirements. There are opportunities we miss every year to help countries through our food aid assistance. And we clearly need to readdress cargo preference requirements, that reduce the amount of food we can move to hungry people around the world.

Third, we must consider appropriate increases in our short and intermediate-term commercial credit guarantee programs to assist the financing needs of emerging democracies and market economies in East Europe—and possibly the Soviet Union. And we must be prepared to provide this assistance to other nations as they too take this major step.

Fourth, we will need additional staff in USDA to carry out these functions—both in Washington and in the field. While AID has people stationed throughout the developing world, FAS has only limited outreach. While we obviously need to maintain personnel in existing posts, we must assess whether we need to create additional posts in order to service emerging, vital developing country markets.

Fifth, we need to ensure that all of our farm policy decisions—even those involving domestic programs—meet the test of enhancing our trade position. All of our policies impact on our agricultural export potential. I would hope that the 1990 legislation would further focus our policy and resources on building farm markets overseas.

And, sixth, we need to move forward with real consensus on multilateral agricultural policy reform. While an agreement in the Uruguay round will not likely yield opponent's worst fears or supporter's highest hopes, we do have a chance to enhance the competitive system in world agricultural trade. More importantly, we have the opportunity to require other countries to share the burden of adjustment with us—a task that in the past we have shouldered unilaterally.

Trade today remains a small share of total consumption of agricultural products (Table IV). Increasing the trade share of consumption even marginally can have a significant positive impact on our agricultural sector, our trade balance and our gross national product. We should lead from our strength in international trade competition, and agriculture is one of our strongest suits.

Whether through bilateral or multilateral negotiations, we must seek to open markets that are closed to our farm exports—like the EC and Japan. Of even great-

er importance, however, may be the role of these negotiations in keeping markets open. This is particularly crucial in the case of Asia where the risk of protectionism is increasing. As these countries become richer today, they are catching the EC and Japan "disease", and are shifting resources into agricultural self-sufficiency policies. Import barriers are formidable already today. If we want a future for American farmers we have to stop the spread of this disease before it becomes an epidemic and chokes off trade potential and economic growth.

Conclusion

In closing, we are at an important watershed in world history and in agricultural policy today. There may be some adjustments that we will have to make in our own farm sector as we adapt our policies, our production practices and our marketing to meet the demands that face us today.

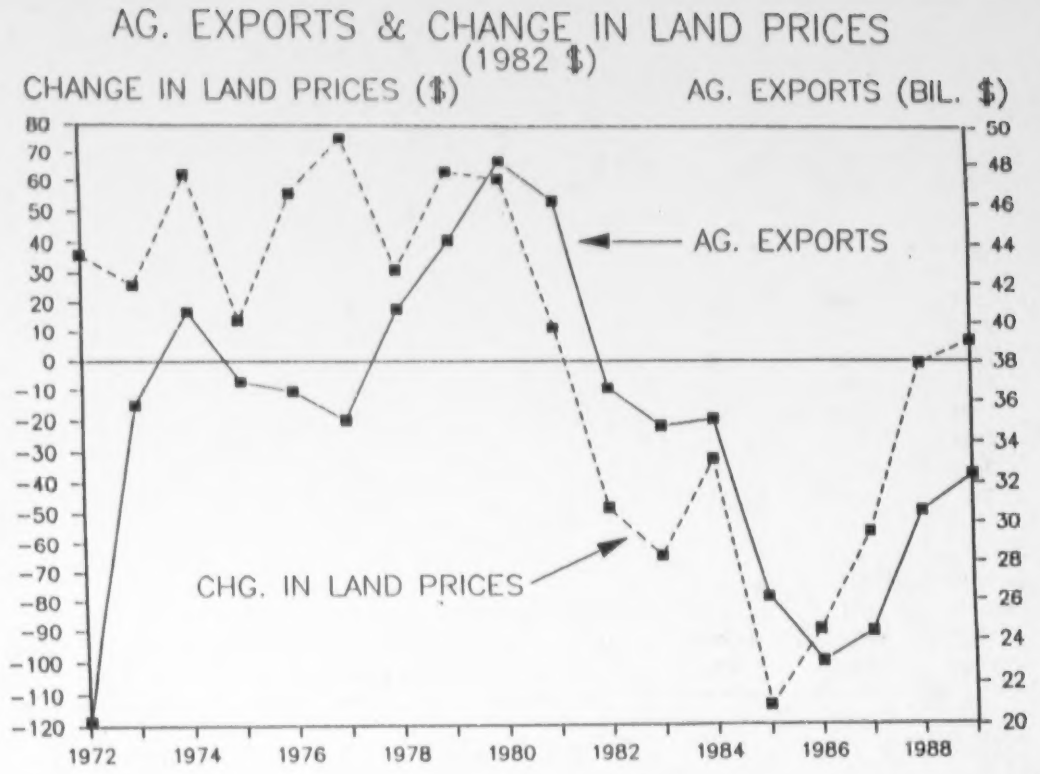
The 1990 farm bill will give important signals to our farmers and to potential buyers around the world about our priorities and the future direction of our agricultural system.

Trade must be our number one priority if the equity position of our farm sector is to be preserved and enhanced in the 1990's and the 21st century.

Thank you.

[Chart 1 and tables I–IV follow:]

CHART 1



Source: USDA/ERS

TABLE I

WPI ECONOMIC POTENTIAL TABLE

Country	Pop. (mill.)	GNP per capita 1987 ($)	1987-2000 Pop Growth (%)	1980-87 GDP Growth (%)	Pop Non Farm (%)	Anml. Prtn. (g/dy)	Pop Under 15 (%)	Mdse Exp 1988 (mill. $)	Mdse Imp 1988 (mill. $)
EASTERN EUROPE									
Albania	3	NA	2.1	NA	49	NA	35	NA	NA
*Bulgaria	9	7511	0.2	1.0	87	49	21	2457	4460
*Czechoslovakia	16	10141	0.2	1.0	90	60	24	7354	7862
*E. Germany	17	12482	0.0	1.9	92	70	19	6482	7060
*Hungary	11	8660	-0.2	1.1	87	54	21	9944	9340
*Poland	38	7271	0.7	-0.3	77	57	26	17034	16773
*Romania	25	5491	0.5	-0.9	77	47	25	13953	9285
Yugoslavia	24	2480	0.6	1.5	75	40	24	12602	13155
SOVIET UNION									
*USSR	291	8851	1.0	1.6	85	54	26	41328	51585

* GNP per capita (1987) and 1980-87 GDP growth statistics are from the CIA Handbook of Economic Statistics. Mdse Exp and Mdse Imp statistics are CIA trade estimates, which include trade within East Bloc.

TABLE II

World Population By Region
(million)

Region	1989	2000	Increase
NORTH AMERICA	274	298	24
CENTRAL AMERICA	113	141	28
CARIBBEANS	28	33	5
SOUTH AMERICA	287	346	59
EASTERN EUROPE	143	144	1
USSR	291	320	29
WESTERN EUROPE	356	356	0
NORTH AFRICA	115	152	37
SUB-SAHARAN AFR.	503	701	198
MIDDLE EAST	190	254	64
SOUTH ASIA	1082	1355	273
SOUTHEAST ASIA	433	530	97
EAST ASIA	1275	1453	178
OCEANIA	24	29	5
TOTAL WORLD	5114	6112	998

Source: World Development Report, 1989

TABLE III

WPI ECONOMIC POTENTIAL TABLE

Country	Pop. (mill.)	GNP per capita 1987 ($)	1987-2000 Pop Growth (%)	1980-87 GDP Growth (%)	Pop Non Farm (%)	Annl. Prtn. (g/dy)	Pop Under 15 (%)	Mdse Exp 1988 (mill. $)	Mdse Imp 1988 (mill. $)
SOUTH ASIA									
Bangladesh	111	160	2.4	3.8	30	5	46	1291	2989
Bhutan	1	150	2.4	NA	9	NA	40	NA	NA
India	826	300	1.8	4.6	33	7	38	15324	24310
Nepal	18	160	2.5	4.7	8	8	41	262	544
Pakistan	109	350	3.3	6.6	49	13	43	4509	6589
Sri Lanka	17	400	1.1	4.6	48	9	35	1463	2211
SOUTHEAST ASIA									
Indonesia	177	450	1.7	3.6	49	7	40	19376	13489
Kampuchea	7	NA	2.3	NA	29	NA	35	NA	NA
Laos	4	170	2.6	5.3	27	NA	43	12	33
Malaysia	17	1810	1.7	4.5	65	30	37	21125	16567
Myanmar	41	NA	2.2	NA	51	13	39	NA	NA
Philippines	61	590	1.9	-0.5	52	20	39	7034	8662
Singapore	3	7940	0.8	5.4	99	46	24	39322	43869
Thailand	55	850	1.5	5.6	33	14	36	15992	16292
Vietnam	68	NA	2.4	NA	38	NA	40	518	804

TABLE III

WPI ECONOMIC POTENTIAL TABLE

Country	Pop. (mill.)	GNP per capita 1987 ($)	1987-2000 Pop Growth (%)	1980-87 GDP Growth (%)	Pop Non Farm (%)	Anml. Prtn. (g/dy)	Pop Under 15 (%)	Mdse Exp 1988 (mill. $)	Mdse Imp 1988 (mill. $)
EAST ASIA									
China	1096	290	1.3	10.4	31	10	29	47663	55352
Hong Kong	6	8070	1.0	5.8	99	52	23	63166	63900
Japan	123	15760	0.4	3.8	92	46	21	264961	187483
Korea DPR	23	NA	2.5	NA	64	24	39	2400	3100
Korea Rep.	25	2690	1.0	8.6	32	25	30	60700	51800
Mongolia	2	NA	2.6	NA	NA	NA	NA	NA	NA

NA - Information was not readily available from sources deemed reliable.

TABLE IV

1988/89 World Trade Statistics 1/

Commodity (mmt)	World Trade 2/	World Consumption	Trade as % of Cons.
Wheat	109.53	530.52	20.65%
Rice	15.04	326.94	4.60%
Coarse Grains	106.93	796.25	13.43%
Corn	72.91	457.45	15.94%
Soybeans	23.08	97.47	23.68%
Soybean Meal	25.34	65.41	38.74%
Soybean Oil	3.70	15.04	24.60%
Cotton 2/	25.70	84.70	30.34%
Sugar 3/	28.86	107.10	26.94%
TOTAL	411.09	2480.88	
AVERAGE			16.57%

1/ Aggregate of differing marketing years; includes intra-EC trad
2/ Based on export estimate
2/ Cotton is min. 480 lb. bales
3/ Sugar is 1000 mt, raw value

Source: USDA February 1990 WASDE Report

STATEMENT OF STEVE McCOY, PRESIDENT, NORTH AMERICAN EXPORT GRAIN ASSOCIATION, WASHINGTON, DC

The CHAIRMAN. Mr. McCoy, we look at Public Law 480 and I was struck the other day in just preparing for some of these things, rereading the title of Public Law 480, the bill that was passed when I was 14 years old, probably long before you were even born. But it is the Agricultural Trade Development and Assistance Act of 1954. I am wondering just what it does to develop agricultural trade, and if it is coordinated with other parts of the Department of Agriculture? Let me ask you this. Do you think that there is a lack of integration in market development? Do you think agriculture is getting its money worth from Public Law 480?

Mr. McCOY. I do not think that agriculture really has a substantial role currently in the program outside of the United States. USDA has a bureaucratic position in terms of program in commodities and makes an effort to protect the interest of commodities programmed under the program internationally. But once those commodities go overseas, then, of course, they are lost for the purposes of market development activities, and the title I program now is basically a foreign policy program. It has very little to do with economic development. It has very little to do with market development.

The proposals that your staff has been taking a look at, I think, are excellent avenues for trying to redirect some of this emphasis toward market development, which is very needed, particularly when you bear in mind that this program has a greater impact on agriculture than it does on any other domestic constituency in this country. And consequently, agriculture should have not only a claim on this but the right to have a certain benefit or advantage coming out of these programs.

The CHAIRMAN. We also have some great foreign policy and overall trade balance benefits out of it, too; do we not?

Mr. McCOY. Well, there is no question about that. In terms of the foreign policies, as far as the balance of trade issues, I do not know. I think with a lot of the countries we are talking about a universe that is even older than the program. We are talking about benefits that will be derived in terms of economic development a generation or two from now. These are imperceptible, incremental changes, and as strained as our foreign aid resources are, and as you well know, as the chairman of the subcommittee, it has meant that there has been a tendency more and more to attempt to use these kinds of food aid programs in order to achieve what are basically programs better achieved through direct foreign aid.

And there is not that much bang for the buck anymore out of title I programs. I just mentioned—for example, in the case of Indonesia, we attempt to leverage a whole panoply of U.S. Government requirements against this nation of 170 million people with roughly $25 million worth of Public Law 480 versus the Japanese who walk in and sign a $2 billion loan program. It is all taken care of. And I think we need to put things into context. We need to try and use the limited resources that we have for objectives that we know we can achieve and market development, quite frankly, is the easiest,

most direct and probably most acceptable way of getting rapid economic development in all these countries.

The CHAIRMAN. I get the distinct impression of late that a lot of these times we have moved in, it has been on a short-term, band-aid thing. What happened to stay on the table is the Department of State of whatever else went through their agenda, what was left, almost like, well, gosh, we need to do something, we have people out there. We ought then to come up with something. That is why I am doing this overall look again at Public Law 480. I mean I have to assume—I say this only half facetiously about the fact that it did start when I was 14 years old. I have to assume that in that time if I have changed, the country has changed, and perhaps some of the things that we can do to the program, or at least the way we look at it has also changed.

What was the figure used? 60 percent of 1 billion people over what period of time?

Ms. BROOKINS. Over the next 10 years will be born in Asia and right now 75 percent of the world's population lives in developing countries. 80 percent of the world's 8 billion population in 2025 when you are 50 years old——

The CHAIRMAN. Next month when I am 50 years old unfortunately.

Ms. BROOKINS [continuing]. Will live in—I remembered—will live in the developing world. So we are dealing with the only market that will be out there, and it is a growing market.

The CHAIRMAN. Well, you mentioned it is 60 percent in the next 10 years of that will be added. That is more than twice the total population of the United States today. We have about 250 million people. You are talking about 600 million people added there in the next 10 years. Thank you. Thank you both very much.

[The prepared statement and attachment of Mr. McCoy follow:]

PREPARED STATEMENT OF STEVE MCCOY, PRESIDENT, NORTH AMERICAN EXPORT GRAIN ASSOCIATION

INTRODUCTION

It is a great privilege to appear before you today. I am Steve McCoy, President of the North American Export Grain Association (NAEGA), the national association of U.S. grain and oilseeds exporting companies and cooperatives. I am pleased to have this opportunity to comment on U.S. agricultural trade in the context of the 1990 farm bill.

It is important that the matter receives the committee's priority attention. No single issue will have as great an impact on the future of U.S. agriculture—and the success of the 1990 legislation—as U.S. agricultural trade.

It has been so for U.S. agriculture since the early 1970's. It remains so today. 1990 legislation which fails to recognize this reality—and to effectively mobilize U.S. Government resources and programs in support of expanded exports—will necessarily fall short of the objectives which you, the committee, may set for the future of U.S. agriculture, however those objectives may be drawn.

THE PRIMACY OF EXPORTS

The link between U.S. agricultural trade and the health of the Nation's farm economy—indeed, of the national economy itself—is well documented and well known. I will not dwell on the matter at length.

Detailed documentary evidence of the link was provided in the 1987 report of the National Commission on Agricultural Trade and Export Policy. It has been an important theme of many subsequent reports; and almost all legislation, since that time.

Leadership Needed

Leadership was another important theme of the Commissions's report. It remains, in our view, the most important theme relating to the matters under consideration by the committee today.

Leadership is needed to knit together the various aspects of today's farm and trade policies into a coherent, connected and consistent whole. The 1985 Act came close to achieving that objective. However, even that seminal legislation has been unable to stem the tide of policy conflict and inconsistency which relates to the effect of various commodity provisions of current law.

Today's problems of rigidity of commodity programs; of unevenness of program benefits as between, say, corn and soybeans; of lack of market-orientation affecting producer decisions; of inadequate production of commodities in demand in the market and surplus production of commodities not in demand; of starkly different domestic and trade strategies affecting different commodities: all these problems pose a serious and continuing threat to the maintenance of U.S. trade competitiveness; a consistent environment promoting overseas market development; and the future performance of U.S. exports in the markets of the world.

We recognize that policy consistency is always a difficult undertaking, particularly when one bears in mind the comprehensive nature of multiyear farm legislation. We further recognize the important contribution of the 1985 Act in the direction of a consistent, proexport policy. We commend the committee for its attention to problems of current policy—particularly program rigidity—and its obvious intent to address such issues in the 1990 bill. That is good news. It demonstrates the committee's appreciation of its leadership role in crafting consistent policy. That leadership will be necessary if we are to avoid sinking into a policy morass dictated by the differing objectives of specific commodity interests.

A common policy and common objective is needed now more than ever in U.S. agriculture: a bundle of inconsistent, conflicted commodity provisions—whether contained under a single statute or not—is not a substitute for a consistent, unified policy approach.

A commodity lobbyist, noting the influence of his commodity's program on the production of another commodity, recently commented, in effect, "that's their problem, not ours". Leadership is needed, Mr. Chairman, to put such thinking aside.

The unintended, adverse impact of current commodity programs—of one commodity's program on the competitiveness of another—is not a problem for a single group or interest: it is everyone's problem. Leadership is needed to see that this theme is reflected in the 1990 bill. That will not be an easy task. However, agriculture stands assured that at your hand fair and reasonable treatment of commodity interests can result in overall benefit for U.S. agriculture as a whole.

Domestic Policies Set the Parameters of Export Growth

We dwell at some length in this testimony on domestic policy ramifications of the 1990 legislation for a purpose that bears directly and unavoidably on the specific matters under consideration by the committee today. Domestic policies set the framework for and parameters of future U.S. export growth.

This is, of course, a matter which the committee knows only too well. It was your recognition of this important relationship which led to a restoration of U.S. competitiveness through the medium of commodity provisions of the 1985 Act.

The direction of domestic policy contained in the 1985 Act must be maintained if U.S. agriculture is to prosper in the competitive environment it is likely to face in the future. The 1985 Act put U.S. agriculture on a path to greater market-orientation and competitiveness. That trend should be allowed to continue—and that path widened and made more permanent—in service of farmers, consumers and others directly and indirectly affected by the performance of the U.S. food and farm system.

Loan rates should be maintained at below market clearing levels; and efforts to increase loan rates strongly opposed. Acreage adjustment strategies should be reconsidered in light of current supply conditions and with full appreciation given to the need to maintain maximum U.S. farm production as the best possible—and most effective—response to unfair foreign competition.

Reserve policies should be made more flexible. Release levels for the Farmer Owned Reserve (FOR) should be eliminated and farmers given opportunity to market reserve grain at their option. Finally, farmers should have greater freedom to make their own planting decisions and to rely on market signals to enhance their competitive position in meeting world and domestic demand. Farm programs should be restructured to break the link between program costs and production.

Government benefits to farmers should be limited to direct assistance unrelated to current or future farm production. This step could be accomplished by ending the link between deficiency payments and current production; and by the substitution in lieu thereof of a direct payment based on historic planting patterns. Farmers should have the assurance that they will receive a known, predictable payment regardless of what they plant or whether they plant at all. That is fair and right, and if accomplished in the manner we have suggested, is in the best interests of all engaged in U.S. agriculture.

A Consistent Climate Promoting Real World Economic Growth

The steps recommended above will go some way towards assuring the continuation of a competitive U.S. agriculture. However, competitiveness can only be guaranteed in the long run through adherence to more general policy promoting real world demand growth.

The 1990 legislation must provide a consistent basis for long-term market development. Foreign customers of U.S. agricultural products need to be assured that the United States will produce in response to market needs. U.S. agricultural policy must be devised in light of the need to preserve the reliability of the United States as a dependable supplier to domestic and world markets. Foreign policy inroads into U.S. agricultural policy which run counter to this principle must be eliminated.

Government policies that have effectively created an environment of managed demand and supply should be ended. Congress should recognize that government can—and often does—act as an anticompetitive element in the domestic and world agricultural marketplace. Government involvement in agriculture and trade should be kept to a minimum. In the alternative, U.S. farm and trade policies should be designed to achieve maximum "market orientation".

International trade barriers and unfair competitive practices should be reduced or, preferably, eliminated. U.S. export subsidies, if maintained, should be limited in scope and targeted to offset unfair subsidies applied to exports of other countries. Due care should be taken to ensure that U.S. subsidies enhance rather than interfere in normal marketing practices.

U.S. market development and food aid programs should be reconsidered in light of the new realities of international agricultural trade. Agricultural trade promotion activities of the U.S. Government--and similar activities by overseas market development organizations—should be strongly supported and maintained. Steps should be taken to ensure that such activities and programs represent the interests of all affected groups engaged in the export of U.S. agricultural commodities and products. Greater emphasis should be placed by government on mining the talent and expertise of the for-profit private sector in support of such activities.

Specific Recommendations

Regarding specific components of the export title of the 1990 bill, we currently recommend provisions as follows:

Agricultural Trade Policy

The 1990 legislation should clearly affirm Congress' support for the administration's position seeking reduction in, or elimination of, unfair trade practices in the GATT negotiating process. The stated policy of the United States should be to disavow use of trade- and production-distorting subsidies and practices prejudicial to expanded world trade. Worldwide export subsidies and import barriers should be reduced or eliminated.

Current U.S. export subsidies should be, by legislation, limited in scope only to counter unfair export practices of other countries. The 1990 bill should clarify that current export subsidies of the United States are temporary, and for strategic use to achieve trade policy objectives. Otherwise, the legislation should specifically rule out reliance on export subsidies as a governing principle of U.S. farm and trade policy.

Inter-Agency Considerations

Existing provisions of law relating to agricultural export embargoes and contract sanctity should be restated and, where necessary, strengthened to ensure clear-cut U.S. policy disavowing use of agricultural export embargoes except in extraordinary cases involving actual military conflict. The committee should take under advisement embargo legislation offered in 1988 by Congressmen Anthony and Bereuter as a model for provisions needed in the 1990 bill.

Principal leadership in agricultural trade policy matters should be reserved for the U.S. Department of Agriculture (USDA), strengthening USDA's hand in the inter-agency process in competition with other agencies. Identification of USDA agricultural trade policy leadership was incompletely addressed in the 1988 Omnibus Trade Act. The 1990 farm bill can improve on provisions of current law. The 1990 legislation should contain explicit language limiting foreign policy inroads into the establishment and execution of U.S. agricultural trade policy. Consideration should also be given to the development of "agricultural trade impact statments" as a means of policing the impact of nonagricultural factors on actual U.S. agricultural export performance.

The role and responsibilities of the Special Assistant to the President for Agricultural Trade and Food Aid should be reconsidered in the context of the 1990 legislation. Consideration should be given to combining the Special Assistant's role with the Agricultural Trade and Development Missions (ATDM) program authorized by the 1988 Trade Act, as a means to make both activities more effective.

Export Enhancement Program

Pending changes in the export enhancement program (EEP) arising from the current interagency review, legislation should be considered to add greater stability and transparency to the EEP program.

The program currently operates in a manner prejudicial to U.S. farmers and grain exporters. Specific changes recommended by NAEGA include provisions requiring that the program allow:

(1) Negotiation directly between buyer and seller, eliminating the government role in determining price, shipment period, coast of shipment, class and grade of grain, and other conditions of sale;

(2) Contracting for any class or classes of grain for shipment from any coast or coasts;

(3) Switching of classes and grades of grain and coasts of shipment at any time prior to shipment by agreement of contract parties;

(4) A single bonus to apply to all classes of wheat (other than Durum) with an "additive bonus" if necessary to counter particularly aggressive foreign subsidization;

(5) Public announcement of a list of EEP eligible countries or an annual "EEP marketing plan" designed to add transparency to the program; and

(6) Elimination of certain "nuisance" and anticompetitive provisions of current regulations.

More detailed information regarding these matters is contained in the pages attached to this testimony. NAEGA welcomes your review and comments regarding the recommendations made.

Export Credits and Credit Guarantees

Export credit programs of the USDA should be supported and funded at the maximum level possible, consistent with the need for such programs in an increasingly competitive international environment.

Consideration should be given to management improvements in credit programs to eliminate "redtape" and provide for their expanded use. Changes in the GSM Short Term and Intermediate Credit Programs are required to make the programs more attractive to exporters and foreign customers alike.

Market Development Programs

Review of the Targeted Export Assistance (TEA) program would be merited in advance of the 1990 legislation to ensure that the program is cost-effectively serving priority U.S. market development objectives. Provisions are needed in the 1990 bill to provide a basis for greater direct for-profit private sector participation in market development activities directly and indirectly supported by the U.S. Government.

U.S. direct and indirect funding of foreign market development activities and projects should be provided only upon condition that the activities and projects supported are beneficial to all affected segments of the farm and export community. Activities or projects which run counter to the goal of promoting the best possible image of the U.S. agricultural industry should not be supported directly or indirectly by the U.S. Government.

Current market development programs of the Foreign Agricultural Service (FAS) should be re-examined to determine their consistency with the future needs of U.S. agriculture. Market development objectives should be more clearly defined, perhaps

as part of the Annual Long Term Trade Strategy reports required by the 1988 Trade Act.

Food Aid and Foreign Assistance

Public Law 480 Title I/III programs should be reconfigured consistent with the recommendations of the Ad Hoc Private Sector Committee on Agricultural Trade and Foreign Assistance, of which NAEGA is part. In general, food aid programs should be required to serve more direct U.S. agricultural market development purposes.

Committee development of the food aid provisions of the 1990 bill should take greater account of farmer and for-profit private sector agricultural interests in such programs. I take this opportunity to volunteer to the committee copies of the Ad Hoc Committee report, as a first step toward your more complete consideration of these issues.

Cargo Preference

Cargo preference provisions of the 1985 Act are recommended for repeal. Such provisions have evidently failed to serve their intended purpose in assisting the transition of the U.S. bulk maritime fleet towards greater cost efficiency.

The cargo preference provisions of the 1985 Act remain a serious exaction on U.S. agriculture, despite the brave face put on them by some within the agricultural community. Assistance to the maritime industry—if deemed necessary by Congress—should be provided in some other manner than by reservation of cargoes in violation of accepted principles of competitiveness and marketing efficiency.

FAS Management and Organization

The 1990 legislation should reaffirm and support policy strengthening the Foreign Agricultural Service (FAS) contained in the 1988 Trade Act.

The 1988 Act called for increased staffing and funding authorization for the agency; and for the establishment of new FAS offices and reporting requirements. Oversight of these provisions should be undertaken to ensure that the requirements of the 1988 law have been appropriately executed by USDA. The committee should also explore the status of the private sector committee required to be established by the 1988 Act for purposes of reviewing the organization of current international programs and activities of the USDA.

Consideration should be given to a provision of the 1990 bill requiring FAS to hire personnel from among individuals possessing a broader range of background and education than that currently true for the agency as a whole. FAS could benefit by new personnel more directly experienced in business and trade. Leadership positions within the agency should not, as a matter of course, be reserved for foreign service officers only.

Concluding Comments

The recommendations we offer today are general in nature; we hope to work with you to narrow their scope and purpose so that they may be suitable to be included in the bill before the committee this year.

Obviously, other matters will emerge which may also bear on the important work to be conducted by the committee in 1990. In addition to strictly trade or agricultural concerns, matters which affect U.S. export performance include U.S. economic policy, the budget deficit, LDC debt, and the overall worldwide economic climate. These matters, in turn—and their relationship to agriculture and agricultural trade—deserve the constant attention of the committee, though not, perhaps, as part of today's hearing.

Overcompartmentalization of export from commodity provisions of the 1990 legislation should be assiduously avoided. The commodity and export titles of the 1990 bill are, in reality, two sides of the same coin. They should not be conceived as separate from or unrelated to each other.

We have attempted in this testimony to note the important link which exists between U.S. domestic farm programs and trade. We have also noted the linkage of U.S. agricultural trade policy with other considerations, such as foreign policy, multilateral trade policy and maritime policy. Keeping consistency between all these various aspects of U.S. agricultural production and trade is the greatest single challenge that lies before this committee. The need for consistency is made all the more real by the backdrop of negotiation of a new multilateral trading agreement.

More than in any previous time in recent history, the opportunity exists next year to fashion a single, integrated, coherent farm and trade policy for the United States that may serve U.S. agriculture into the next century. Ground breaking work in the direction of a market-oriented, competitive U.S. agriculture was signalled by the 1985 Farm Act. Building on the strengths of that bill—and improving it where necessary—this committee can have a dramatic impact on the domestic and international environment in which U.S. agriculture must operate.

We have suggested our preferred route for achieving U.S. agricultural competitiveness. We now look to your suggestions and actions. The U.S. export grain community stands ready to assist you in any way we can to make your burden this year less onerous. We thank you for this opportunity to testify and look forward to future dialogue in support of a strong, profitable and market-oriented U.S. agriculture.

The North American Export Grain Association (NAEGA) is a not-for-profit organization representing the interests of U.S. grain and oilseeds exporting companies and cooperatives.

[The attached material "The Export Enhancement Program (EEP): A Proposal for Change," follows:]

THE EXPORT ENHANCEMENT PROGRAM (EEP): A PROPOSAL FOR CHANGE

Recommendations of the North American Export Grain Association (May 1989)

Introduction

In testimony presented before the House Subcommittee on Wheat, Soybeans, and Feed Grains on April 27, 1989 (see attached),[11] the North American Export Grain Association (NAEGA) has recommended "redesign" of the current Export Enhancement Program (EEP) to "lessen the adverse impact of government in the grain marketing process".

The EEP currently "acts as a deterrent rather than as a stimulant to export sales", the testimony states: "foreign grain customers look to the U.S. Government rather than to the marketplace to make basic decisions regarding purchases". The testimony notes that "a greater element of stability, consistency and predictability is necessary in the EEP program, if it is not to place an unreasonable burden on grain markets". It also notes that "greater transparency in the decisionmaking process would result in improvement in the program".

The following information is provided as additional to the views expressed in NAEGA's April 27 testimony. The North American Export Grain Association (NAEGA) represents the interests of U.S. grain and oilseeds exporting companies and cooperatives.

The Current System

Currently, USDA—either internally, or, more often in negotiation directly with a foreign buyer (usually a government)—determines the terms of sale of commodities sold under the Export Enhancement Program (EEP) down to specifics including shipment period; coast of shipment; class and grade of grain; and, in many cases, price. Once these initial determinations are made, the buyer invites exporters to bid for the business.

USDA calculates the bonus it believes is needed to buy-down the price of the commodity to the price offered by the EC for the commodity in the market in question. An exporter or exporters offering to sell within the bonus range may be granted a bonus and thereby the business.

However, the process is not automatic. Prices and acceptable bonus levels vary from day to day; and from period to period. USDA, by exercising total discretion with respect to such sales, may reject or accept on any given day business offered at terms better or worse than those offered on the previous day or day following.

There is an absence of consistency and predictability in the program.

The Current Problems

The negotiation of contract terms and the setting of bonus levels by USDA takes away from the exporter the ability to rearrange domestic positions to benefit from

[11] The referred to testimony will not be a part of the printed hearing record.

the most efficient and advantageous terms; and prevents competitively placed producers from participating in the sale to the extent that they would under free market conditions.

By tightly limiting the shipment, the present system prevents the buyer from making any substantial forward purchases. EEP initiatives are offered piecemeal. A buyer who may be disposed to buying substantial quantities of grains in predictable conditions is precluded from that option because he cannot predict when the next initiative will take place. The lack of consistency and predictability in the program creates frustration for both buyer and exporter, results in charges of buyer "discrimination" and, in the long term, will tend to drive our best volume customers to more predictable origins.

Indeed, this may already have happened. Producer, buyer and exporter all fail to benefit from the program as Congress intended. Significant sales and, hence, purchases from producers go unmade.

A Partial Solution

There is no perfect "market-oriented" solution to problems of this nature created by a targeted export subsidy program which, by its very nature, impedes the normal function of markets. Nevertheless, certain improvements in the current system could be made which would restore to a greater extent the operation of the free market to the benefit of the program and affected parties, including exporters and producers.

NAEGA has reviewed some possible solutions. Among these, we recommend the following:

(1) NEGOTIATIONS SHOULD BE DONE DIRECTLY BETWEEN BUYER AND SELLER, ELIMINATING THE GOVERNMENT ROLE IN DETERMINING PRICE, SHIPMENT PERIOD, COAST OF SHIPMENT, CLASS, AND GRADE OF GRAIN, AND OTHER CONDITIONS OF SALE.

(2) THESE NEGOTIATIONS SHOULD PERMIT THE CONTRACTING FOR: (a) ANY CLASS OR CLASSES OF GRAIN; AND (b) SHIPMENT FROM ANY COAST OR COASTS.

(3) CLASSES AND GRADES OF GRAIN AND COASTS OF SHIPMENT SHOULD, AS IN THE FREE MARKET, BE SWITCHABLE AT ANY TIME PRIOR TO SHIPMENT BY PRIOR AGREEMENT OF BUYER AND SELLER.

(4) THE SAME BONUS SHOULD APPLY TO ALL CLASSES OF WHEAT (OTHER THAN DURUM) FROM SHIPMENT FROM ALL COASTS.

IF NECESSARY, AN "ADDITIVE BONUS", SUCH AS THAT THE EC NOW EMPLOYS, COULD ALSO BE GRANTED AND, IF GRANTED, PUBLICLY ANNOUNCED, TO COUNTER PARTICULARLY AGGRESSIVE SUBSIDIES APPLIED TO EXPORTS OF OTHER ORIGINS OF A GIVEN COUNTRY.

(5) TRANSPARENCY AND STABILITY SHOULD BE ADDED TO THE MARKET.

For example, USDA could, not later than the beginning of each crop-year, announce an "EEP marketing plan" specifying eligible countries and quantities of commodities available for such countries under the program.

If, under this type of scheme, the quantities specified for any individual country had not been contracted for within 6 months of the announcement of the plan, the quantities specified in the plan could, by public announcement, be reduced. When, on the other hand, quantities in the plan had been fully contracted, the quantities first announced in the plan could again by public announcement be increased.

Alternatively, USDA could limit its annual announcement to a list of eligible EEP recipient countries. Such a step, while not preferable to the suggestion above, would provide improved transparency while also preserving USDA's flexibility to use EEP strategically for purposes of countering foreign unfair trade practices.

(6) THE BONUS SHOULD BE ANNOUNCED ON A DAILY BASIS AND THE SAME BONUS LEVEL SHOULD APPLY TO ALL ELIGIBLE COUNTRIES.

A weekly subsidy, such as used by the EC, might also be an acceptable alternative.

(7) UPON ACCEPTING A CERTAIN QUANTITY OF AN ANNOUNCED BONUS, THE EXPORTER SHALL DECLARE THE DESTINATION.

Unwarranted "nuisance" provisions of current regulations should be eliminated or reasonably amended. For example, qualification requirements currently deny participation to an exporter—however financially sound and scrupulous its performance with government contracts may be—simply on the basis that it has not, in the past, exported the commodity to be exported under a particular EEP initiative.

We have no interest in making eligible to participate in this program companies that are not properly eligible; nor have we an interest in loosening appropriate management safeguards. However, these requirements, as they apply to exporters currently participating in the program, appear to us to be anticompetitive and improperly exclusive.

Performance security requirements of EEP are needlessly burdensome. Once the financial capacity of an exporting company is established and, provided the company has a record of good performance on government contracts, the bonding requirements called for under current regulations should be waived for that company.

Likewise, regulations attending entry certification should be eased. In some cases it is difficult, if not impossible, to obtain evidence of entry in the form the regulations currently require. The regulations should allow in the alternative any competent and credible evidence such as certification by the vessel owner, any entity of the buyer's government in its country or in the United States, or a stevedoring firm, etc. The purpose of the program is not to gather entry certificates of limited format—it is to export grain.

Current program regulations should be amended to state that, in the event that a vessel sinks or a part of the cargo is lost, the bonus should not be forfeited.

Finally, exporters should not be penalized for failure to meet contract minimum when such failure is attributable solely to the presence of dockage. In accordance with international practice and freighting arrangements, the quantity stipulations of sales contracts provide that quantities are gross; i.e., including any dockage. CCC regulations should correspond.

The management proposals above have been submitted with particular reference to wheat. However, NAEGA notes that these proposals should be applicable to all commodities exported under the export enhancement program.

The CHAIRMAN. That concludes the hearing today. The committee stands adjourned.

[Whereupon, at 11:35 a.m., the committee recessed, to reconvene at 9:30 a.m., Wednesday, March 21, 1990, in room SR-332, Russell Senate Office Building.]

[Material submitted for inclusion in the record follows:]

APPENDIX

QUESTIONS SUBMITTED BY SENATOR LEAHY AND RESPONSES THERETO

EXPORT CREDIT REVOLVING FUND

Question. The Food for Peace Act established an "Export Credit Revolving Fund" to be used to assist in the financing of agricultural exports. How has the administration used the authority for the fund?

Answer. That authority has not been used because the CCC Charter Act provides the necessary authority to finance export programs.

Question. Would the administration recommend that the fund be capitalized?

Answer. No. We do not recommend capitalizing this fund. The CCC authorities are sufficiently broad to carryout export market development programs. Also, the shift from direct loans under GSM-5 to export credit guarantees under GSM-102 and GSM-103 has reduced the level of the borrowing authority needed to support export credit programs.

Question. Would a smaller fund of this type, set aside from the larger CCC revolving fund, be a better check on how much we are spending to promote exports, where it is going, and whether it is being spent effectively?

Answer. In my view a separate fund would increase the workload of USDA staff and would not increase exports.

THE COTTONSEED AND SUNFLOWERSEED OIL ASSISTANCE PROGRAMS

Question. In the Disaster Assistance Act of 1988, we instituted two programs to assist the export of sunflowerseed oil and cottonseed oil. How much oil has been exported with the assistance of these programs? Should these programs be continued? What are the Department's recommendations concerning these two programs?

Answer. In fiscal year 1989, the Sunflowerseed Oil Assistance Program (SOAP) facilitated the export of 54,300 metric tons of sunflowerseed oil to Egypt. In supplying the bonus sunflowerseed oil for these sales, USDA spent $8,150,975 of the $10 million mandated for fiscal years 1988 and 1989. Sales of 15,000 metric tons of sunflowerseed oil to eligible buyers in Algeria have been approved in fiscal year 1990 under the SOAP. USDA has not, as yet, purchased the bonus sunflowerseed oil to be made available as bonuses in connection with such sales, so no funds have been spent under SOAP for fiscal year 1990. An additional 5,000 metric tons of sunflowerseed oil remains allocated under an initiative targeted for Algeria under the SOAP. There is also a current allocation of 25,700 metric tons of sunflowerseed oil under a SOAP initiative targeted for Egypt. To date no sales have been facilitated to buyers in Egypt under the SOAP in fiscal year 1990.

No sales have been approved under the Cottonseed Oil Assistance Program (COAP) in fiscal year 1989 or to date in fiscal year 1990. There is currently an initiative targeted for Egypt which has an allocation for 20,000 metric tons of cottonseed oil under the COAP. USDA is currently reviewing options to revise the structure of the COAP to promote viable cottonseed oil sales under the program.

The Department believes that the SOAP and COAP should not be continued. Both cottonseed and sunflowerseed oils are eligible for participation in the Export Enhancement Program (EEP) and sales of these commodities have been assisted through this program. To mandate specific export subsidy programs in addition to the EEP is counterproductive. Operational mechanisms for the SOAP and COAP are more complex than the EEP in that bonuses are paid in the form of a like kind of vegetable oil. The legislative mandates for SOAP and COAP have directed the Department to spend $10 million in fiscal years 1988 and 1989 for SOAP, $20 million in fiscal years 1989 and 1990 for SOAP and COAP, and $30 million in fiscal

years 1990 and 1991 for SOAP and COAP. The funding levels for SOAP and COAP have little relation to U.S. supply of vegetable oil, domestic or world market prices for vegetable oil, or the amount of subsidy actually needed for U.S. sunflowerseed or cottonseed oil to be competitive with export subsidies from other countries.

The Department recommends that the SOAP and COAP not be given additional funding and that exports of sunflowerseed oil and cottonseed oil be stimulated with the assistance of competitive bonuses under the EEP. The volume of sales of sunflowerseed and cottonseed oils to be assisted and the amount of subsidies needed in a given fiscal year can be better managed under the EEP without specific funding levels prescribed by legislation.

TARGETED EXPORT ASSISTANCE UPDATE

Question. What action has the Department taken to respond to this criticism? When will regulations be issued for the existing program? Why has the Department waited almost 5 years to issue any regulations?

Answer. The Foreign Agriculture Service (FAS) has been under increased scrutiny by audit agencies, such as the General Accounting Office and Office of the Inspector General, since enactment of the Food Security Act of 1985, which assigned to the Agency management of a dozen new or revised export assistance programs, including the Targeted Export Assistance (TEA) program. In a budget environment which did not permit substantial staff increases, FAS had to modify work assignments for its existing personnel in order to stay on top of the increased program workload. Nevertheless, since its implementation in 1986, having allocated the full $730 million authorized by Congress, audits have identified remarkably few problems of any significance in the Targeted Export Assistance Program, and none that remain unresolved.

The program operated in the first few years on the basis of very detailed Guidelines, substantive provisions of which were incorporated by reference into the program agreements signed with participating organizations. In addition, availability of the program, application procedures and allocation criteria have been published annually in the Federal Register since 1987. On September 13, 1989, in response to a GAO recommendation, we included in a Final Rule published in the Federal Register regulations relating to commodity and organizational participation eligibility, use of third parties, contributions, reimbursement procedures, and criteria related to allocation and plan approval. FAS has since developed for publication in the Federal Register a Proposed Rule delineating all aspects of the TEA program's conduct and operations in even more detail which we hope will be published imminently for public comment.

EXPANDING EXPORT MARKETS FOR U.S. HIGHER VALUE PRODUCTS

Question. How does the Department currently promote the export of high value products? How could we target markets and programs to expand U.S. exports of agricultural high value products?

Answer. Nearly three-quarters of the Targeted Export Assistance Program has been directed toward promoting exports of high-value agricultural products to key growth markets in the Pacific Rim, Canada and the EC-12. Similarly, the Export Enhancement Program has been used to effectively compete against EC subsidies on several high-value products such as poultry and wheat flour. Also, GSM-102 credit guarantees have financed a wide range of high-value products including protein meals, corn-starch products, shelled almonds and calf-starter premix.

FAS has also worked extensively with State regional organizations to promote a wide range of high-value exports. With the support of our network of Agricultural Trade Offices overseas, these groups have increased U.S. participation at trade shows, sponsored in-store promotions of selected U.S. high-value products and helped initiate a number of branded promotions.

Trade negotiations continue to offer the most promise for expanding U.S. exports of high-value products over the long-term. The inference that U.S. market development efforts are not as cost-effective as those of competitor nations must be viewed in the light of the EC's outlay of $12 billion in export subsidies in 1988. Our future plans will, to an extent, be determined by our ability to gain market access for high-value products through on-going trade negotiations. There are limits to how effective market promotion efforts can be when markets are closed and our competitors are receiving export subsidies. Recent trends in U.S. exports of high-value products to the Pacific Rim, the United States-Canadian Free-Trade Agreement, and Mexico's continuing economic reforms are encouraging signs that hold promise for the future.

FAS plans to continue to rely heavily on the Targeted Export Assistance Program to promote the export of high-value products. Evaluation reports based on hard data are now becoming available. This information, in combination with the experience that we have gained in program design and implementation over the last 4 years will undoubtedly improve the effectiveness of this program as a tool to expand U.S. exports of high-value products.

COTTONSEED AND SUNFLOWERSEED OIL EXPORT PROGRAMS

Question. How much oil has been exported with the assistance of these programs? Should these programs be continued? What are the Department's recommendations concerning these two programs?

Answer. To date, there have been three separate funding appropriations for SOAP and COAP totaling $60 million. As of March 21, 1990, the Department had expended $10.2 million of that amount, facilitating the sale of 69,300 MT of sunflowerseed oil valued at $38 million (f.o.b. basis). No sales of cottonseed oil have been facilitated to date under COAP.

U.S. supplies of both sunflowerseed oil and cottonseed oil are at their lowest level since 1985/86, and the recent upward trend in prices has dampened foreign buyer interest in importing under these programs. The existing and projected stock levels for both sunflowerseed oil and cottonseed oil make it extremely unlikely, even under the best of circumstances, that the Department will expend the remaining balance of appropriated SOAP/COAP funds ($18.4 for FY1990 and $30 million for FY90/91) before the end of FY1991.

Both programs are presently funded through fiscal year 1991. Our recommendation at this time would be that these programs not be continued beyond FY1991. Both sunflowerseed and cottonseed oils remain eligible commodities for export assistance under the Export Enhancement Program. Rather than maintaining an array of commodity-specific export assistance programs, we believe it would be more effective to operate a single program that allows buyers in targeted countries to purchase the specific oil or oils that best meet their requirements.

STATUS OF GATT NEGOTIATIONS

Question. Can you give us a report on what occurred in Geneva? What progress was made in last week's agricultural meetings? What do you see as a logical next step in the negotiations?

Answer. The February 13-14 meeting of the Agriculture Negotiating Group (ANG) resulted in agreement that the GATT Secretariat would circulate a composite text of all the proposals put forward by participants, which the Secretariat subsequently did. The newly established Group of 6 (United States, EC, Japan, Australia, Canada, and Argentina) met March 19-21 to discuss in more detail each country's comprehensive proposal, guided by specific questions put to each in advance by the Secretariat. During the meeting of the ANG the week of April 2, major country positions were further clarified, this time with questions coming from the larger Group of 32, representing those countries actively participating in the negotiations. During this exercise, U.S. views on tariffication and on permitted policies were a focus of discussion.

The latest meeting of the ANG occurred on April 30. At that time, the United States informally circulated two International Trade Commission reports on tariffication, and fielded questions on the topic. Other issues of significance were proposals from net food importing developing countries for developed countries to offer compensation for increased food prices, in the event of liberalization, as well as discussion on the noneconomic goals of agricultural policy in some countries.

At the informal meeting of trade ministers in Puerto Vallarta, Mexico, on April 18-20, there was consensus to work toward a framework agreement. To meet this commitment, countries will meet informally to discuss and further develop the concepts of tariffication and permitted policies. Further ANG sessions are scheduled for the weeks of June 11 and July 9.

The Working Group on Sanitary and Phytosanitary Regulations and Barriers of the ANG is continuing its work. This group was established in the fall of 1988 and has met several times. The papers tabled since the April Midterm Agreement indicate that there is considerable consensus in the sanitary and phytosanitary area, particularly concerning the need to rely on international scientific expertise in resolving trade disputes over health-related regulations. All of the proposals support the basic elements of the Midterm Agreement: the importance of scientific evidence and the principle of equivalency, long-term harmonization based on international standards, the essential role of international scientific organizations to the harmoni-

zation process, and the strengthening of GATT rules in this area. Future meetings are anticipated to be more issue-oriented.

A key topic within the Working Group will be the determination of the standards and guidelines of the three international scientific organizations named in the Mid-term Agreement (Codex Alimentarius for food safety, International Plant Protection Convention for plant health, and International Office of Epizootics for animal health) to be included in the international harmonization effort. With the exception of the Nordics, who have proposed that certain categories of standards not related to health be included in the sanitary and phytosanitary negotiations, broad agreement exists concerning the scope of the relevant standards and guidelines to be recognized.

The substantive framework for the negotiations now seems well established. The four areas identified by the United States in our comprehensive proposal in November—market access, internal support, export competition, and sanitary and phytosanitary—have been accepted, at least implicitly, as the format for future work. The next step will be for countries to begin to narrow their differences within these four areas. Secretary Yeutter and Ambassador Hills will be pushing the process along in a number of forums over the coming months; the OECD Summit, the Houston Summit, and the Quint, among others.

QUESTIONS SUBMITTED BY SENATORS LEAHY AND LUGAR AND RESPONSES THERETO

TRADE RELATED REPORTS REQUIRED BY LEGISLATION

Question. Which reports could be consolidated or modified? Should any of these reporting requirements be eliminated?

Answer. FAS appreciates Congress' information requirements and intends to remain fully responsive to them. However, FAS is continually looking at ways to streamline, consolidate and reduce required reporting with the goal of freeing field personnel to support market development efforts of our U.S. farm and agribusiness industries. As we begin consideration of the 1990 farm bill, FAS would appreciate Congress also looking at ways to streamline, consolidate and reduce reporting requirements placed upon FAS by the Food Security Act of 1985 and the Omnibus Trade and Competitiveness Act of 1988.

MAINTAIN

Section 812 of the Agricultural Act of 1970 as amended

This is a weekly report required of FAS on U.S. Export Sales by Exporters of Wheat, Feed Grains, Oilseeds, Cotton and other commodities when specified. This is a useful report and we would not object to continuing this report.

Section 1132 of the Food Security Act of 1985

The USDA report, "Trade Policies and Market Opportunities for U.S. Farm Products," is providing useful information, not otherwise available, to a relatively large audience involved in efforts to expand U.S. agricultural exports. Although report preparation requires a substantial amount of time and human resources, we believe the report should be continued until the time when the private sector makes comparable information available.

Section 4206 of the Omnibus Trade and Competitiveness Act of 1988

The trade assistance office mandated by Section 4206 has been staffed and is well established within FAS. The office is providing an effective and worthwhile outreach effort for FAS programs and services. We have no objection to continuing annual status reports on activities of the office.

CONSOLIDATE/MODIFY

Section 4201 of the Omnibus Trade and Competitiveness Act of 1988—Long-Term Agricultural Trade Strategy Report

There was very little feedback on the usefulness of the first report prepared for FY 1990. Therefore, it is difficult to judge the desirability of continuing the report. If intended users of the second report indicate the report is useful, or propose modifications that would make the report useful, then we believe consideration should be given to continuing the report. In view of the lack of response to date, we suggest monitoring closely the evaluations of the second report.

Section 5 of the Agricultural Aid and Trade Missions Act of 1987

Agricultural Trade and Development Missions (ATDM). We recommend that this report be submitted on an *annual* basis instead of quarterly. Quarterly reporting places a heavy reporting burden on the 13 Embassies and Consulates that have received Missions and on the three interagency committees charged with followup. Given the slow pace of change in the developing countries, quarterly reporting is unduly excessive.

Food Aid Assistance Report (Annually)

FAS would be willing to publish an annual report consolidating a number of annual reports now required by Congress. Specifically it would include:

1. Report on Sales and Barter and Use of Foreign Currency.
2. Country report on Public Law 480 programs and funds.
3. Report on Food for Progress.
4. Country use of Public Law 480—Section 108 funds for Development of Agricultural-Related Private Enterprise.

Export Assistance Update (Quarterly)

FAS used to assemble the Export Assistance Update on a quarterly basis, but it was recently discontinued when interest waned. We would be willing to resume publication of this update on a quarterly basis and fold in a number of other reports now required by Congress. Specifically it would include:

1. GSM-102 and GSM-103 exports.
2. Public Law 480 Titles I and III exports.
3. Direct Sales.
4. Barter Sales.
5. Section 416 exports.
6. EEP exports.

Section 4307 of the Omnibus Trade and Competitiveness Act of 1988

The Agricultural Attaché Reports are incorporated into the 1132 report and therefore FAS recommends this requirement either be deleted or be combined with the 1132 report requirement.

ELIMINATE

Section 201 of the Agricultural Act of 1956

This section requires an annual report on the expansion of markets for surplus agricultural commodities. It is an obsolete report and the information it would contain is already provided in a number of other reports currently required of FAS.

Section 4 of the Food for Peace Act of 1966

This is the Agricultural Export Credit Revolving Fund report. The FAS does not use the revolving fund and therefore a report is unnecessary and obsolete.

Section 602 of the Agricultural Trade Act of 1974

We recommend eliminating the report entitled Export Promotion, Agricultural Trade Offices mandated annually by Sec. 602, Agricultural Trade Act of 1978. As part of the ongoing FAS management of overseas offices, information such as contained in this report is routinely compiled and is readily available to both the Congress and the public. We believe this report requirement is duplicative of this ongoing management process.

Section 1163 of the Food Security Act of 1985

The information provided in the "Export Sales of Dairy Products" report contains information also contained in the Export Assistance Update. Since this is duplicative, we recommend its elimination.

Section 1123 of the Food Security Act of 1985

The most significant consultations with which this report is concerned are the GATT Uruguay Round Multilateral Trade Negotiations. This report is unnecessary because it duplicates material that the Office of the U.S. Trade Representative submits to the Congress on a continuing basis in the Annual Reports of the President on the Trade Agreements Program and that the Office of the U.S. Trade Representative will submit to the Congress when the negotiations have been completed. Since the Office of the U.S. Trade Representative, supported by an interagency process in which the Department of Agriculture is an active participant, takes the lead in all trade negotiations and consultations, reports of this kind reporting on the consultative activities of only one Department are inappropriate.

Question. What's the status of the Reorganization Evaluation report mandated by 4204 of the Omnibus Trade and Competitiveness Act of 1988? When do you anticipate that it will be submitted to the committee?

Answer. Although delayed primarily because of our priority focus on the Uruguay round, which together with the 1990 farm bill will have a major impact on how we organize to meet the challenges of the 1990's, we nonetheless completed our evaluation of the reorganization recommendations contained in the 1986 report of the National Commission on Trade and Export Policy. We have also established a four-person Private Sector Advisory Committee. On February 26, 1990, we presented our evaluation to this committee and requested their views and recommendations, if possible, by March 20. The committee has advised us that they will be unable to meet and finish their report until April. Assuming the committee meets that schedule, we should be able to submit the report to the Congress in May at the latest.

QUESTIONS SUBMITTED BY SENATOR CONRAD AND RESPONSES THERETO

U.S. GRAIN POLICIES AND THE WORLD MARKET

Question. Could you please provide the committee with an analysis of the current price of wheat? In particular, please address the issue of why prices have fallen this year in spite of lower stock levels. In your oral testimony at the hearing, you cited factors other than supply which had reduced the price in 1990 over 1989. Please explain in some detail what those factors are.

Answer. There are a number of reasons why wheat prices are down from levels a year ago. World import demand is only fractionally above the 1988/89 level, yet a number of our major competitors have larger exportable wheat supplies this year. This increased competition in the international market has resulted in downward pressure on wheat prices. The EC has exacerbated this downtrend by an aggressive export subsidy program. In addition, a number of importing countries appear to be delaying late season 1989/90 purchases as early signs point to an increase in area planted to wheat worldwide for 1990/91 and prospects for the 1990 wheat crop have recently improved. These factors have contributed to the softness in wheat prices. Concern over the low level of year ending 1989/90 wheat stocks appears to have diminished. It appears that the world has learned to adjust to greater supply-demand variability and lower stocks. U.S. wheat stocks at the end of the 1989/90 marketing year at 442 million bushels will be the smallest in years. However, a relatively greater proportion of the projected carryover wheat stocks are unencumbered in Government storage programs. With the bulk of this year's drawdown in wheat stocks taking place in either CCC or Farmer-Owned Reserve stocks, free wheat stocks at the end of the marketing year will not be significantly below June 1, 1989 levels.

Question. Attached [12] is an independent analysis of the U.S. farm programs by the Australian Bureau of Agricultural and Resource Economics (ABARE). In their analysis, they show that the United States would have produced more wheat in 1981 through 1987 without any farm program than with the existing farm program. Assuming that the definition of a trade distorting subsidy is a subsidy that increases production thereby reducing foreign imports or increasing exports, do you agree that the U.S. wheat program could be characterized as non-trade distorting in the 1980's based on the Australian results?

Answer. Any subsidy that interferes with the free operation of the marketplace is trade-distorting. The U.S. wheat program has had an impact on both prices and production levels. Other countries' programs have had an equal if not greater impact on the markets. The objective of the U.S. comprehensive proposal is to eliminate these trade-distorting policies and allow market signals to determine production and price levels. The Australian study referred to in your question makes the unrealistic assumption that the United States would unilaterally eliminate its support policies. We have never and will never support such a proposition. We will not go down the reform road unless our trading partners and competitors join us.

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[12] This document is retained in the committee file.

PREPARATION FOR THE 1990 FARM BILL

Testimony for the 1990 Farm Bill

WEDNESDAY, MARCH 21, 1990

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m., in room SR-332, Russell Senate Office Building, Hon. Patrick J. Leahy (chairman of the committee) presiding.

Present or submitting a statement: Senators Leahy, Pryor, Conrad, Daschle, Kerrey, and Lugar.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. Good morning. The hearing phase of the 1990 farm bill is now coming to a close. We have stayed on schedule. We are going to begin markup early next month. And, in fact, next week Senator Lugar and I will be meeting with the members of the committee to work out that schedule. We set a very rigorous schedule for ourselves. We held 33 hearings. We did it in an 8-week period. Including hearings held last year, the committee members have traveled to 13 States to meet with those interested in the farm bill, and I think that is an all-time record. We have covered a broad range of subjects: commodity programs, conservation, crop insurance, loan rates, ground water, food safety, low-input sustainable agriculture, nutrition, trade, Public Law 480, and more.

What we have learned from those hearings comes through loud and clear. The farm bill debate in 1990 is going to be a lot different than it was in 1985. In 1985, the farm community was divided over the direction of agricultural policy. The debates concerned mandatory programs, farm credit and a host of other issues. Fortunately, this year the farm community does not appear to be as polarized as it was 5 years ago. That means much of the basic structure of the 1985 bill will likely remain in the 1990 farm bill. There is a good chance that it is going to be easier to develop consensus on commodity programs in the 1990 farm bill. But building consensus means more than just talking among ourselves, as we know.

In 1990, consensus will mean agreement among a broader segment of the population. Those outside traditional agriculture will demand a say on how we construct and operate the commodity programs and how we approach agricultural production in this country. It means the committee will consider a broader array of issues.

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In addition to the traditional agricultural programs, conservation, farm credit and farm income, the committee will also be concerned with food safety, forestry, ground water, organic farming, and pesticides.

If we fail to deal with these issues here, I know we are going to be forced to deal with them on the floor. There will be floor amendments on these things. And so I would much rather develop a consensus here in the committee than face ambushes on the floor. So I think to achieve this consensus we have to avoid name-calling and finger-pointing. It is a useless exercise to shift blame and avoid responsibility. It is wrong to claim that environmentalists will force needless and unwanted regulation on farmers, or that farmers are not interested in the environment. Farmers and environmentalists both want to preserve the land and ensure the public health without sacrificing economic growth. Trying to force a division between various groups is pointless. It will only lead us down the road of bitterness and recriminations.

Today we are going to hear from a broad range of organizations that do not focus on individual commodity interests. We will hear comments on issues ranging from dairy to fruits and vegetables; from credit programs to planting flexibility. A number of witnesses will also address the critical nutrition programs that feed our nation's hungry families. I have said over and over again that the question of hunger in this nation, this wealthy, powerful nation, is more than a political issue or an economic issue. It is, indeed, a moral issue.

So I thank the witnesses for their insight, and I would yield first to my good friend, the senior Senator from the State of Indiana, Dick Lugar, without whom this committee could not operate.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Thank you, Mr. Chairman, for your gracious introduction, and likewise for a very fine summary of what we are about.

I share the chairman's interest in the broad number of issues that this committee will try to address, and we look forward to working again on ground water, food safety, the conservation and environmental situations that you have outlined. I have stressed, at least in the work that I have done thus far in the hearings, the hope that we will have greater planting flexibility for farm producers—that our very best acres will be available for planting in order that our nation might be more competitive in our export, which are vital for farm income and offer hope for the farm community.

But these issues will emerge as we get into the commodity programs. I appreciate this hearing, and I look forward to hearing the witnesses.

The CHAIRMAN. Thank you.

We have as the first witness the Honorable Madeline Kunin, the Governor of the State of Vermont, who is joined by Ron Allbee, Commissioner of Agriculture of the State of Vermont. Both Governor Kunin and Commissioner Allbee have been before this committee before, and Governor, I must say, especially considering the

fact that our State, that we love and share, is under a couple feet of fresh snow this morning, I am glad that you and Ron were able to get down here. Please proceed with your testimony.

STATEMENT OF HON. MADELINE KUNIN, GOVERNOR, THE STATE OF VERMONT, MONTPELIER, VT; ACCOMPANIED BY RON ALLBEE, COMMISSIONER OF AGRICULTURE, STATE OF VERMONT

Governor KUNIN. Thank you very much, Mr. Chairman, and Senator Lugar.

INTRODUCTION

I greatly appreciate the opportunity to appear before this committee on behalf of the State of Vermont. I might add, as you know so well, Senator Leahy, in Vermont agriculture is an issue that is not exclusively the concern of farmers. I think all Vermonters recognize how our whole way of life, our whole economy, is integrated with agricultural issues. I also want to take this opportunity to thank you, Mr. Chairman, for your leadership, both on a national level and for the State of Vermont, and really broadening the agricultural debate to such areas as nutrition, food safety, pesticides and building the bridges between agricultural issues and environmental and safety issues, which I think are very, very important in the 1990's in the times in which we live.

DAIRY CONCERNS IN THE 1990 FARM BILL

What I would like to discuss is obviously because Vermont is a very strong dairy State, I would like to discuss the dairy concerns in the 1990 farm bill, but also to get to the heart of the matter, which I am sure you are aware of, in many rural States our primary concern really is how do we maintain a viable agricultural economy? How do we enable farm families to stay on the land so that the vision that we now see more in the movies than we see otherwise of a farm family really having a rural way of life, that that vision is maintained, that it does not become simply a historic document, and in Vermont, we have the pleasure of having a living vital rural landscape that is not simply a picture postcard, though it is also a beautiful picture postcard, with the red barn and today white fields. Anybody who wants a recent ski report, I will be glad to provide it. It is good. It is very good.

But that is not simply an image. There are people living and working in those kinds of settings, and our purpose, our main purpose, as we look at the 1990 farm bill, is to make sure that that working landscape remains intact, possibly and very likely not in the way it has always been. We recognize that change is inevitable, and we want to work with it. But as you may know, Vermont's economy is 90 percent dairy, so that we are probably the most heavily concentrated dairy State in the Nation. One of our counties, Franklin County, is the 13th most concentrated dairy county in the country, and it extends to the business community as well that 5 of the top 25 businesses with corporate headquarters in the State of Vermont involve agriculture, and one of those whose fame

you may have noted is Ben & Jerry's, which started out very modestly and is today a major enterprise.

CHANGE—WE ARE MAKING EVERY EFFORT TO DIVERSIFY OUR AGRICULTURAL BASE

We recognize, as I indicated, that we too have to change. We are in a period of transition, and we are making every effort to diversify our agricultural base. For example, organic vegetable farming has increased 70 percent during the past year. Nurseries are booming and blooming. Nursery production has increased 47 percent. Beef numbers are up. Sheep. One new enterprise is 16 deer farms, and in one of today's national papers, there is an article on the nutritional benefits of venison. So I think we are going to see a growth in all of these areas. And we have a program called "Market Vermont" to boost Vermont products.

WE ARE ALSO INVOLVED IN EXPORTS

We are also involved in exports, and I see that some sections of the farm bill deal with our ability to be competitive on a growing international market. I know when you think of Vermont, you do not probably think of a State that is involved in this sphere of export as well, but 25 percent of our apples actually are exported to Europe, and a high percentage of that is to Ireland. Our Holsteins go all over the world, to Saudi Arabia, Israel and one prize Vermont bull made it to the front page of Pravda. So we are involved.

The CHAIRMAN. Not to be mistaken for any other bull that makes it on the front page of Pravda. I am sorry. I could not resist. Even at the demise of the Cold War I could not resist that one statement.

WE HAVE TAKEN VERY SIGNIFICANT STEPS WITHIN OUR OWN STATE TO BOOST THE HEALTH OF OUR OWN DAIRY ECONOMY

Governor KUNIN. I knew I had to word that carefully. But I think given all of that, and our overall eagerness and willingness to expand our agricultural economy, the fact remains that dairying is very, very important, and we have lost a lot of dairy farms, about one-third since 1980. So our challenge is, you know, how do we keep that dairy sector alive. What we have done for a small State is actually we have taken very significant steps within our own State to boost the health of our own dairy economy. In fact, to put it in perspective, Vermont is a State of about 570,000 people. We have had some very good economic times, and we have had some slowdown in recent times, but we have at all times placed high priority on supporting our farmers.

And what we have done in this budget in the last several years, we have put some $50 million into programs to assist our farmers. About 10 percent of our general fund budget one year—this was over a 2 year period—went to assist farmers, which is significant. We really see a linkage between the health of our agricultural sector and the health of our overall economy. And fortunately, when we initiated some of these State-based agricultural programs, the Chamber of Commerce, tourism people, the industrial sector,

joined the farm bureau, joined our agricultural groups, and said we have to stick together because our faiths are intertwined.

Just to give you a few examples of what it is precisely that we did, Vermont—I think this is probably still accurate—it is probably the only State that developed its own farm subsidy. We paid a one-time dairy subsidy that was paid out of about 14 cents per hundredweight up to 1 million pounds. It added up to about $7.5 million. We created something called a working farm tax abatement program, which for those farmers who are eligible, pays up to 92 percent of their property taxes and totals today, along with forestry, some $13 million. We established a partnership with the private sector, the banking community, establishing a low interest loan fund that has refinanced loans saving some farmers enormous amounts of money by restructuring their debt. We figure the total savings is about $5 million for our Vermont farmers by developing this partnership interest-buy down program.

We also initiated our own development rights program. We have something called the Land Conservation Housing Trust Fund, and we put $20 million of the surplus into that. We are putting annually $4 million into the program, and I am asking the legislature even in hard times to continue to put money into that program. I think that purchase of development rights, while it is expensive, it is the best way that we can really preserve the agricultural legacy and keep our best farms productive. And I understand, Mr. Chairman, that you have legislation pending in that regard, and I would strongly urge that we develop a partnership between States like Vermont and the Federal Government.

It is a small investment, but it goes a very, very long way, and as far as I can see, after looking at this problem, how do you sustain an agricultural economy in changing times, I think this is the only really long-term solution that works. And I was talking to a farmer at a farmer's group not long ago. He said, well, why should I sell my development rights, and another farmer replied, well, you know, you can go to Florida, you can sell off your land for development, but you cannot come home. If you keep your land in perpetuity in agriculture, future generations are going to provide that home not only for your family but for all of this country.

So we made those investments, and we did what we could within the parameters of your own State, but we realize that no matter how far we go, we cannot control our destiny in terms of agriculture. There are some decisions that are made on a regional basis, and we are working to establish this. We passed a regional dairy compact, which would allow the New England States as well as other Northeastern States to establish prices together through a compact that will be possible in the long-term. But even regional cooperation as you so well know on this committee has its limitations.

COMMITTEE DECISIONS

So finally, we have to turn to you, and particularly to this committee, as it is making these critical decisions. And I know these decisions are not easy decisions. I think any time you think that agricultural decisions are simple just try to figure out how to ex-

plain the dairy price support system. And it gives you a little humility about the subject. So I know that there is a careful balance in this process, and that you have many, many constituencies, but I think one has to really sometimes step back and say what is our goal here. Is our goal to really keep agriculture vital and productive in different parts of the country, and to have different parts of the country produce dairy products or should we just say let the chips fall where they may? And let whoever can produce it cheapest survive and have a Darwinian kind of process of survival of the fittest.

I think, and you can certainly, I am sure, do statistical analysis of that, that you would have most of the milk production emanate from one part of the country. Now it might be an efficient system from a pure price point of view, but is it the right system for this country from the point of economic security, from the point of food security, from the point of view of energy costs, and from the point of view on the just purely human level? Do you really want the result, the net end result to be the loss of a dairy and agricultural economy in the Northeast, in the New England States? And I think that is really the question. And we have seen the erosion, and it is one of these problems where, you know, nobody quite puts the dagger in the heart. But it is all these little—every farm that is lost is another farm gone is another heartbeat that is missed in the agricultural and dairy economy. And I think these decisions of pricing and how the pricing system works are critical, are critical to the question of will we keep a vital dairy operation in the Northeast.

And added to that, I think you have to realize that, and I am sure you do, that you are trying to address the problem of oversupply. And it is a very valid problem and an important problem to address. But in doing so, by lowering prices, you may not, in fact, be providing that solution. That the oversupply process can still continue in those States that have the highest productivity, the lowest costs at the present time. So that you will perhaps cut off dairy production in those States that are presently in the system and by lowering prices, but you will still be stuck at the end with an oversupply situation because those other States are going to continue to produce at prices that will be difficult for others to compete with.

FEAR OF VERMONT DAIRY FARMERS CONCERNING THE ALL MILK PRICE

At the present time, the Vermont dairy farmer is—farmers hesitate to say this, as you know—doing fairly well. But the fear that is out there is that when prices go down, and if they go down significantly, they simply cannot make it because the cost of production is about $13 per hundredweight. Last year, the all milk price was $13.45 per hundredweight. Under the administration's proposal, the all milk price would fall as low as $8.60 according to National Milk Producers' estimates. So that is a price that would simply put a lot of people out of business. And I think if there is one message that Vermont farmers would like to convey to you it is find a way to avoid further price cuts. Keep us at a level where we can make a living in agriculture, in dairy farming, and I know that is not

easy to do, but I think if your goal is to keep diversified agriculture alive throughout various parts of the country, then I think we have to find a way to make it economically feasible for a farmer to stay on the land.

ESTABLISH A MECHANISM THAT WOULD MAKE SURE THAT THOSE WHO ACTUALLY CAUSE THE SURPLUS ALSO PAY FOR THE SURPLUS

Yes, we have to reduce surpluses. We have to obviously balance the budget, and believe me in Vermont, we are working at that very assiduously, and there are no easy answers. I think the best phrase for a road map might be a form of supply control to establish a mechanism that would make sure that those who actually cause the surplus also pay for the surplus. The irony is that in New England, as you may know, in the last 8 to 10 years, we have not had surpluses. In fact, if anything, we have had shortages. And so we have actually figured out a pretty good match between supply and demand, and I think what we have to try to establish as a policy, if you can find the right mechanism to do so, is to find a better match for supply and demand respecting some regional differences, which inevitably occur.

THE ENVIRONMENTAL SIDE OF THE FARM ISSUE IS VERY, VERY IMPORTANT

There are a few other issues I would just like to touch upon, though time does not permit me to go into detail. I am sure you will have many more expert witnesses than I to elaborate. But the environmental side of the farm issue is very, very important. It is interesting. Vermont being such a dairy State, you think the only interest in Vermont would be on the dairy prices, but today there is an editorial in the paper called "Save the Swamps" referring to the farm bill, and talking about opposition to the swampbuster program and basically saying, you know, do not repeal it. The value of the country's wetlands far exceeds the individual gains that would be made by farmers.

The CHAIRMAN. That is in our hometown paper. I probably better read this. I will borrow it from you after the hearing.

Governor KUNIN. Hot off the press.

Senator PRYOR. Do they have swamps in Vermont?

Governor KUNIN. We have wetlands.

The CHAIRMAN. Wetlands. Wildlife refuges.

Governor KUNIN. But people do call it swamps.

The CHAIRMAN. You see I am the only U.S. Senator who can get his morning paper delivered by the Governor of the State. We are a small State, but we learn to get along that way. You probably did not do that when you were Governor, did you, David?

Senator PRYOR. I did not read a paper when I was Governor. [Laughter.]

It was all bad news.

The CHAIRMAN. I have to tell you there are days when the Governor and I do not read the paper back home either.

Governor KUNIN. That is the best advice I have gotten.

Senator PRYOR. I made it a point not to.

HUNGER

Governor KUNIN. That is the best advice I have gotten. But the whole pesticide issue that you are familiar with, and the whole other question that I know you will hear more about of relating to hunger and what this farm bill can do to assuage hunger throughout the world and within this country. It still is a mystery, I think, to most citizens why we cannot do better at providing food, growing food, to those areas and those individuals who need it, who need it most.

CONCLUSION

In conclusion, I know you have some tough decisions to make. Being in political life, I never underestimate the complexity of a problem, certainly one as long-standing and really complicated as this one is. At the same time, I know that every once in awhile, one has to step back from all of the dynamics at work and say, now, what is really the big picture, what is the question, what are we trying to achieve.

And from both a national perspective and, I must say, from somewhat of a regional perspective, I think it is critical for this country to continue to have a vital dairy and agricultural economy in the Northeast. Obviously we have to do our part with the national picture, but I think it is beneficial from both an economic point of view, food supply point of view, and energy point of view to keep dairying alive and well. To do so, you have to make it economically workable. People are not going to do it simply as a labor of love or to be photographed for a postcard to send back home. They have to be able to send their kids to college. They have to be able to do all the things that wage earners have to do everywhere.

And so I ask for your innovation, your creativity, and your consideration as you put the final touches on a bill that I think will do more than anything else that we can do individually to determine the course of agriculture, of farming, of the rural way of life in Vermont, and in this nation as a whole. Thank you very much.

The CHAIRMAN. Thank you, Governor, and you have anticipated a number of my questions in your superb statement. I would raise just one issue with you, and I have also discussed this with Commissioner Allbee on different occasions. In fact, he has been extremely helpful to me and to the committee in this area of legislation. As you know, Ron used to work for us here, and when he left to work for the State of Vermont, we just never gave up calling on him. We just kept right on doing it.

Governor KUNIN. Well, we are very grateful for the partnership.

The CHAIRMAN. You mentioned the development rights. We find many times in Vermont that farmers want to pass on the farm to either their son or daughter or both for farming, but they also want to retire. They have worked hard and they are caught. On one hand they need to sell the farm because that is the only retirement income they have. But they want to sell it and then their son or daughter cannot buy it; they cannot afford the high mortgages that result from the development value of it. We have a program in Vermont guaranteeing cash if the land stays in farming. I have put together legislation that would make available to States like

Vermont that have such a program a $25 million fund in low interest loans; a sort of permanent farm preservation revolving fund. Would I be safe in assuming that something like that would be helpful to a State like ours?

Governor KUNIN. It would be very, very welcome, especially as we establish, you know, the know-how to run such a program. And I think more and more farmers are going to be involved. There is a learning curve, but I went to a part of Vermont that I know you are familiar with, the Mettawee Valley, where there are about 20 wonderful farms, and 2 of those have recently purchased, gone into the purchase of development right program, and there is a tremendous pride in the whole family. They feel they are doing the right thing. And I think what we are trying to do is make it contagious that that is the right way to go, but a matching program would be extraordinarily helpful and very welcome.

The CHAIRMAN. Thank you. Dick.

Senator LUGAR. I have no questions. I thank the Governor.

Governor KUNIN. Thank you.

The CHAIRMAN. David.

Senator PRYOR. Mr. Chairman, I think I will wait till later to come back. I wanted to, in fact, I wanted to talk just a moment about the wetlands issue, and I might not choose this time because we do have a vote, and I do not want to sort of portray myself as being in combat with your distinguished Governor. But I would basically like to say I think we have created a Frankenstein, and I think we need to revisit in the wetlands issue. But I will not make my speech now. I will save it for later.

Governor KUNIN. Be sure to send it to me.

Senator PRYOR. It is just a little—it is just a hand grenade I want to lob over into the foxhole.

The CHAIRMAN. I will, Madeline. Do not worry.

Senator PRYOR. I will do that later. I enjoyed your statement.

Governor KUNIN. You want to give me a good day, Senator.

The CHAIRMAN. I want you to know that Senator Pryor periodically lobs grenades in here, but he does it with such a southern charm that until the actual explosion you almost do not mind it.

Ron, did you want to add anything here?

Mr. ALLBEE. No.

The CHAIRMAN. We have a vote going on. What I am going to do is run and vote so that we will not have to interrupt Bishop McRaith when he testifies. We will come back and start, Bishop, right with you. We will go and vote and stand in recess for a few minutes while we do that, and then come back.

Senator PRYOR. Thank you, Mr. Chairman.

[Recess.]

The CHAIRMAN. The committee will please come to order.

We have Bishop McRaith from Kentucky, who reminds me that he has been here before, sometime ago, two chairmen back. We like to have you come here every couple of chairmen, Bishop, but I hope that does not mean that you have to come back immediately. In that case we would go through two chairmen in a hurry. I have a certain vested interest in staying here, but we are delighted to have you sir.

STATEMENT OF THE MOST REVEREND JOHN McRAITH, BISHOP OF OWENSBORO, KENTUCKY, REPRESENTING THE U.S. CATHOLIC CONFERENCE, OWENSBORO, KY

Bishop McRAITH. Thank you very much, and I appreciate being here.

INTRODUCTION

I am John McRaith from the Catholic diocese of Owensboro, and come from a diocese that is very rural. We have no large cities, and my diocese is rural in terms of agriculture as well as mining, and neither have been doing too well lately, so you can imagine some of our concerns.

I represent the United States Catholic Conference here today, the public policy and legislative agency of the U.S. Catholic Bishops, and also the National Catholic Rural Life Conference, which at one time I was the executive director, and at the present time I am also on the board of the Catholic Relief Services. So for a lot of reasons I have an interest in this legislation and do appreciate the opportunity, Mr. Chairman, and the other members, Senator Lugar, to come before this important committee on this important topic.

AGRICULTURE IS NOT DOING AS WELL AS WE MIGHT THINK

At the outset, I want to express my belief that despite reports that seem to indicate that things are better now in agriculture, I am here to say that perhaps we are not doing as well as we might think. And I am mindful of this having just talked to Gene and Karen, a farm family that farmed for 25 years, since they were married, and he even before that, and just in the last month had to finally give up. They had a hog operation and were good at what they did, but just could not handle the swings. So I think when we talk to people like that or to Jimmy and Janet, who were much younger farmers, that had to give up in the last year, when you know people like that, you get concerned about thinking that all is well.

FOOD POLICY IN A HUNGRY WORLD

So we face some very serious problems that raise moral questions and require this nation to rethink its public policies. In the Bishop's November 1989 statement on food and agriculture, entitled "Food Policy in a Hungry World," the USCC said that because of the oftentimes conflicting and interest-based nature of current agricultural policies, our food system is adrift without a moral compass. It is this moral dimension that is central to our concerns and what I want to address and to say a word about this morning.

BUT MERELY SMOOTHING OUT THE 1985 FARM BILL, WE DO NOT THINK, WILL BE SUFFICIENT

We all know that putting a farm bill together is not easy, and you all know that far better than probably any of the rest of us here. But merely smoothing out the 1985 farm bill, we do not think, will be sufficient. We believe that bolder action is needed, and I really believe that if we look at what has happened over the

years and particularly in the early 1980's that that cycle has come and gone for as long as I grew up in a farm, and I lived with this through the 1950's, the 1960's, and the 1970's and 1980's as a priest and a minister in the church, and I have seen these cycles come and go. But I do not see anything in the 1985 farm bill that would prevent these cycles from coming back, and I am convinced they will. And every time a cycle comes back, it has cost us 100,000, 200,000 farmers. We are down to where someday the last one is going to go when that swing comes back. There is no question about it. When I first got interested in this almost 30 years ago—interested from this point of view—I was very interested as a kid growing up because that is how we lived—but there were far more farmers, millions and millions more, but really we are down to talking about 500,000, 600,000 farmers that are not either real small or that are second-income, or the very, very large corporate kinds of farms.

So we are talking about a relatively small number of people that I do not believe that the farm bill addresses them adequately. We continue to have the 1985 bill, and is it sufficient to ensure that there will not be more Genes and Karens or a Jimmys and Janets down the road? And I think that is what the Governor was saying prior to my own talk here today.

RECOMMENDATIONS

Also, I continue to count the hungry in the world in the hundreds of millions. So I think the farm bill of 1985 needs to be looked at. I would be concerned if it were to be left pretty much the way it is. It seems to me that a creative farm bill would develop a comprehensive food policy that could ensure an adequate supply of nutritious food to meet a domestic and international needs in an environmentally responsible way and in a way that promotes the social health of our rural communities. Now that is saying a lot.

But that I really believe is the goal. The goal needs to be access by every person to enough food, to sustain a decent life.

Secondly, it must also put an end to the continuing loss of so many family farms which we have referred to.

Thirdly, it should reorient farm practices of production toward more environmentally sound farming methods. Reading Time magazine or other general publications you can pick up almost anywhere the awareness that is growing. The bill should offer ways to manage international agricultural trade and aid that are less driven by raw competition and the desperate search to get rid of surpluses and more by global food security and equity because food is not just like any other commodity, but it is the very sustenance of life itself.

So the policy should be there in terms of seeing that a hungry world is fed, not an answer to perhaps our surpluses. If I have a minute, the surpluses—I have a real hard time with that in terms of that being such a horrendous problem. Fort Campbell is in my diocese, and a few years ago when we had the huge surplus of corn, and they were piling corn outside, I was invited up into Ohio to give a talk up in Columbus. So they took me out to these huge

stacks of corn, piles of corn, which had been put under tarp or plastic, and I think somewhat to embarrass me said what do you think of that. I said I am really quite happy, to tell you the truth.

I just visited Fort Campbell not long ago and I saw stuff piled there, tanks, planes, and helicopters, and the other thing that was not necessary. But our prayer was that that surplus would rust to the ground. We would never fly one of them. So I said a little corn really does not bother me very much. In fact, I think it is wonderful that we would be able to have this. I do not get that nervous about the surplus. I think there ought to be a way to manage that in such a way that we would be able to feed a hungry world. So that is just kind of an aside here.

But to achieve the goals, I would ask this committee to adopt or to look into adopting some of the following recommendations, and these are things that are in our written testimony, and you would expect me to say, I am sure. Farm programs including credit should be structured to look toward preserving that 500,000, 600,000 farmers if indeed, we want to continue a dispersed agriculture. Now if we do not, we need to say that up front. We should not be going around to everybody talking all this good stuff about family farms unless we're serious. If we are serious, we have to take some tough steps to direct support and aid to them, so that sector of the farmer population would grow. We need to find ways to get young farmers into farming. It is not enough to brag very much about a family farm system when you are down to those few numbers.

So family farmers who work on the land and depend on farming primarily for their livelihood, the kind of family farmers that the Governor was talking about earlier, we need to look seriously at helping them. Farm policy should make it easier for farmers to adapt more effective practices of environmental stewardship, and again, somehow that has to be paid for. And the farmers have no effective way to pass that cost on. If the Clean Air Act passes, industry has a way of being able to tack that on to the price eventually. Farmers, given the kind of marketing system that we have, they have no way to do that. And so they are very often forced to do things that are environmentally not the best in an effort to survive, and I think that is a society's problem, and we need to pay for that. That is not just their responsibility.

I urge the committee to adopt a recordkeeping provision that would require private applicators, farmers, to keep records of their pesticide use and make those available to farm workers and to physicians for the purpose of improving health treatment. I am convinced that many of our farmers and certainly the farm workers have no idea what they are dealing with, and some kind of recordkeeping could be very beneficial in that in terms of health.

Fourth, a trade proposal should take into account the necessity of promoting self-reliant development in poor countries. These countries need to improve their own agricultural capacity. The United States should support genuine land reform and assist these countries in building necessary infrastructures. And I would just say that perhaps in terms of land reform, that we might want to witness that to set a good example. Our land is constantly being concentrated in the hands of fewer and fewer people. We are

headed in the very direction that we are suggesting to some of them that they need to come back from.

As a minimum, the direct export programs, the Export Enhancement Program and the Targeted Export Assistance Program, should be brought into line with food security objectives even if it means eliminating them. The use of food as a trade weapon just has to end, it seems to me. I also urge the creation of an appropriately managed international food reserve to stabilize markets, lessen trade tension, and support food aid.

To show you just how effective I am, I know that this was in testimony 20 years ago so you can see how effective we have been in calling for that, but it makes such sense. In a world where there is seemingly plenty of food and starving people, there has got to be a way to connect the two. Protecting the soil and resources and fostering the family farm system are in the public interest and cannot be left to the unregulated market or large multinationals to manage it, I do not believe.

Free trade proposals that purport to do this, I believe, are misguided. Countries must have the ability to protect their environment, reduce poverty and manage their own supplies. I am pleased to note that Congress appears interested in modifying the food aid program, Public Law 480. My position on the Catholic Relief Services Board gives me a special interest in Public Law 480. The multiple purposes it has acquired, particularly in title I, unnecessarily complicate the program, I believe. I would hope that a better separation of commercial and strategic and genuine humanitarian purposes can be effected.

Fifth, I urge the committee to take a serious look at how we can end the horribleness of hunger in our own country, as again as the governor talked about. Our suggestion would be to increase basic food stamp benefits levels to reflect more closely the actual cost of food, remove the cap from shelter deductions as to the food stamp program so that poor people do not have to choose between housing and food which is a common thing. Make it possible for food stamp recipients to take in relatives and not lose benefits in order to deal with the homelessness.

And sixth, to extend the special demonstration program to feed hungry children in shelters that was adopted last year, and I understand that you all were very, very helpful in that, and we believe that is a good program and hope that that will continue. And we are very grateful for the support that you all have given to it.

CONCLUSION

Let me conclude, then, by emphasizing the problems we face do not recognize boundaries or stop at the gates of cities or national borders. We are all bound together through these problems and the decisions you make will enrich or diminish all of us. So I hope our comments are helpful to you in your challenge to shape a more generous U.S. food policy, and I thank you.

The CHAIRMAN. Thank you very much, Bishop. Because the time is late, I will just stick to one issue. You have actually touched on it. We are trying to make some changes in our trade laws, especially to provide grain to those countries that need it because of these

huge surpluses that we do have in the United States. I do not know if you or your staff have had a chance to look at some of the things that we have been trying to do in regard to trade, but I would welcome any suggestions you might have in the direction that we are taking to reform those trade laws.

Bishop MCRAITH. Well, I think trade, obviously is important to all of us. And in any plan to reduce our own surpluses we need to think in terms of the hungry. I think there are some things in your Public Law 480 program and trade proposals that you have suggested that could be used for development, and we certainly would support your development ideas as well as Catholic Relief Services. We have tried very much to meet immediate hunger needs, but also you know the importance of development, because otherwise you have to keep bringing that fish rather than teaching someone to fish—you know that old story.

The CHAIRMAN. Exactly.

Bishop MCRAITH. But, yes, absolutely, to be able to use that for the development of people would solve problems down the road. We need to help some of those countries have the ability to produce their own food. Some of them will never be able to do it entirely, but that is the ultimate answer to your world hunger.

The CHAIRMAN. Thank you.

Senator Daschle.

Senator DASCHLE. I have no questions. Thank you for your testimony.

The CHAIRMAN. Bishop, it is good to have you here again. I hope it will not be so long until the next time.

Bishop MCRAITH. And I hope you are still here.

The CHAIRMAN. Thank you very much.

Bishop MCRAITH. Thank you.

The CHAIRMAN. Thanks a lot for coming.

[The prepared statement of Bishop McRaith follows:]

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

UNITED STATES SENATE

TESTIMONY BY

MOST REVEREND JOHN MCRAITH
BISHOP OF OWENSBORO, KENTUCKY

ON

U:S. FOOD AND AGRICULTURE POLICY AND THE 1990 OMNIBUS FARM BILL

MARCH 21, 1990

INTRODUCTION

Mr. Chairman:

I am John McRaith, the Roman Catholic Bishop of Owensboro, Kentucky. I serve a diocese which is mostly rural, and which has farms of all sizes and shapes. While the relatively few cities in my diocese are not large, they still suffer from the problems of poverty and hunger that many larger cities experience and the types of problems this Committee must address as part of the farm bill. These are my personal credentials.

I appear here today, however, representing the United States Catholic Conference, the public policy and legislative agency of the U.S. Catholic Bishops, and the National Catholic Rural Life Conference, of which I am currently a board member and formerly served as its Executive Director in the 1970s. I appreciate the opportunity that you, Mr. Chairman, and the other members of this Committee have given me to discuss with you issues of such critical importance to our country and our world.

I am here today frankly to share with you my concern that despite the reports we sometimes here about how well things are currently going in agriculture -- farm income is up, the U.S. has recaputured some overseas markets, and the crisis of the early 80s in our own farm sector is over -- we are not doing as well as we think we are, we face serious problems and that I believe it is time for us as a nation to move in new directions to address the human and moral dimensions of key agricultural issues.

These include the hundreds of millions of starving and malnourished people across our globe, an apparent inability to deal with continuing hunger and homelessness here at home, 300 hundred thousand U.S. farmers gone from their farms in the last decade, agricultural trade disputes with our trading partners that threaten the world's overall trading system, and increasing evidence of major environmental damage to soil and water here and abroad. These compelling challenges require new policies and new priorities in the farm bill under discussion here today.

The bishops' concerns and policy proposals to deal with these problems arise from our pastoral experience and from the services and advocacy work of a number of Catholic organizations. The National Catholic Rural Life Conference has for almost seventy years addressed various aspects of these issues with courage and persistence. Its staff members have been consulting regularly throughout last summer and this fall with farmers and farm groups about the 1990 legislation. Catholic Relief Services has fed hungry people all over the world for nearly half a century and brought dignity and hope to millions of people in many countries. Our anti-poverty agency, The Campaign

for Human Development, and Catholic Charities USA have been deeply engaged in advocacy and services to support farmers, farmworkers, and hungry people in their struggle for justice. In our parishes, schools, social justice and human service efforts we see firsthand the inadequacies and challenges of national food and agricultural policy.

Both of the organizations I represent have a strong interest in the 1990 farm bill, because it provides an opportunity to address the problems I mentioned previously and will set the direction for U.S. food and farm policy as we move toward the 21st century. Because the United States remains a major world economic force, particularly in agriculture, the farm legislation you are considering will not only affect domestic interests, but will have a profound influence on the ability of developing countries to feed their hungry people. It will also have a significant impact on U.S. relations with its trading partners.

In the bishops' 1986 pastoral letter on the U.S. economy, Economic Justice for All, we expressed our concern about the increasing numbers of farm bankruptcies and foreclosures which result in increased concentration of land ownership, the increasing damage to natural resources resulting from many modern practices (overconsumption of water, depletion of topsoil, and pollution of land and water.), and the stark reality of world hunger in spite of food surpluses -- all of which suggest that the food system "is clearly in need of evaluation and reform." (#217)

More recently, in our November, 1989, statement, Food Policy in a Hungry World, the bishops expanded on these concerns and focused more specifically on the question of food and agriculture. We concluded that our food system is adrift without a moral compass. It is precisely this moral dimension that is central to our concerns.

The first of these concerns is how to achieve food security in a world where half a billion people are chronically hungry and the food system is threatened by a possible trade war. By food security I mean access by every person to enough food to sustain a decent, not minimal, human life.

Hunger anywhere is morally unacceptable in a world that nearly everyone acknowledges is capable of producing enough food for all of humanity. This haunting reality raises the basic question of whether farm and food policy should be based primarily on economic interests. For 500 million people to face starvation is not efficient or just. Neither is the loss of 300 thousand US farms during the 1980s. At the same time that our leaders have proclaimed their commitment to family farming, public policy has actually fostered an increasingly industrial system of agriculture that requires large amounts of capital and rewards large farms far more than smaller and medium-sized farms. This is a matter of policy choice, not economic

inevitability. In our judgment the policies of postwar U.S. agriculture have resulted in a concentration of U.S. farmland ownership which is detrimental to the interests of farming and to the vitality of rural communities -- and also further threatens food security.

Our second concern is how can the loss of so many family farms and the deterioration of our rural communities be prevented without impairing the incentive of farmers to produce for the market?

While many rural counties no longer depend directly upon farming for their economic security, agriculture remains a key element of the overall economy and of the economic and social fabric of rural America. Yet that same rural America is home to a disproportionate number of poor people who have been bypassed by general economic growth and whose problems have been aggravated by the 70 per cent cutback in rural development funding during the 1980s. Policies that force more farm families off the land will only add to the burden of poverty in our rural communities. This applies particularly to Black, Hispanic, and native American farmers, for whom access to ownership is a key aspect of their economic and social health.

Thirdly, how do we ensure that farm policies and practices demonstrate effective concern for the environment and promote a sustainable agricultural system that will provide food security for future generations.

This particular farm bill will bring the question of the environment to a more central place in the policy debate. We welcome this development. In his 1990 World Day of Peace message Pope John Paul It stated that "the ecological crisis is a moral crisis." The growing concern among the public about the need to take better care of our environment is a hopeful sign of the moral sensitivity and responsibility to which the Pope refers.

You are all aware that some very widespread farming practices in this country have depleted topsoil and water resources -- and polluted some of our groundwater with excessive levels of chemicals -- at alarming rates. In the tropical, developing countries agriculture is threatened by some farming practices that have led to the steady expansion of deserts, the reduction of rain forests, and much flooding. Global warming trends raise serious questions about the earth's future capacity to produce food. Consumers are increasingly voicing their concerns about food quality and safety, and farm policy must reflect these concerns in a more careful monitoring of chemical residues in food and in providing greater assurance to consumers that the food they eat is safe and nutritious.

Unfortunately, however, environmental costs have rarely been included in the calculation of efficiencies or economies of scale in agriculture. The 1990 farm bill offers a genuine opportunity

to redress these inadequacies. I hope that you will adopt policies to encourage farming practices that can sustain the earth's capacity to regenerate itself and avoid further environmental damage. Such action would also promote global food security.

Fourth, while acknowledging that international agricultural trade must be a central feature of an effective system of global food security, how can we prevent the drive for advantage in that trade from perpetuating and aggravating the social damage experienced by rural communities here and abroad, the rising trade tensions among major exporters, and the threat to the agricultural development of the poorer nations?

We must not ignore the dangers in this area. Agricultural trade has become an increasingly complex, interdependent, and competitive element of the food system. The sharp tensions among Japan, the European Community, and the United States are particularly destabilizing. These industrial giants have technological capacity, large national treasuries (despite our debt), strong competitive instincts and politically vocal farm sectors that push them to engage in a subsidized trade war.

Moreover, the demotion of agriculture to the status of dependent variable of trade policy has resulted in depressed commodity prices, increased the competition among farmers in the industrial nations and the developing countries exacerbated by the impact of multinational agricultural trading interests, and perpetuated hunger and malnutrition among the world's poor. Food is now grown more to sell in the market than to feed people.

In my view, food trade should be conducted with global food security and equity as its primary goals, not with raw competition as its driving engine. Food is not just like any other commodity -- it is the basic sustenance of life itself. The fate of millions hangs in the balance when decisions are made about trade and aid policies; and central consideration must given, in adopting them, to the needs of the poorer people.

Related to trade and the overproduction that seems endemic to agriculture in the industrial countries, as well as to the food insecurity represented by over-consumption in the developing world, are the food aid programs -- which now take on an even more critical moral dimension. The question for us is: will US food aid help poor people in food deficient nations move toward food security, or will it foster an unhealthy dependence?

The Food for Peace Program, PL-480, which has done so much to feed hungry people around the world in the last 35 years, has to be re-authorized as part of your legislation. The program suffers from a set of often contradictory purposes -- foreign policy, commercial profit, economic development, and humanitarian assistance. It needs to be reformed to reflect more accurately

the food needs of poorer nations and less the commercial or strategic interests of exporting nations.

Fifth, how can we ensure that U.S. farm policy serves the special needs of Black, Hispanic and Native American farmers and farmworkers?

This requires particular attention. Black farmers have lost land at an accelerating rate in recent years. While many of these farms are small, they have been, on the whole, viable and they provide a sense of identity and contribute to economic security. Special public policy measures must be taken in the farm bill to stem the loss of these farms, as well as those among Hispanics and Native Americans.

Farmworkers, too, upon whom we depend for so much of our harvested food and who are among the poorest people in our land, must receive more attention and protection in farm policy. This is especially pertinent in regard to pesticide usage and labor rights.

Sixth, how do we work to prevent and relieve hunger and malnutrition in our own fertile and productive nation?

The presence of so many poor and hungry among us in this rich nation is morally intolerable. We applaud the efforts of the many generous people who have responded to their plight. However, their dedication cannot substitute for fair and equitable public policy and increased government efforts to end hunger in America. America is growing too complacent in the face of continuing hunger in its city streets and rural hamlets.

These introductory remarks about our concerns constitute the background for some specific comments I wish to make about domestic and international farm and food policy.

DOMESTIC FARM POLICY

At the present time, no effective comprehensive food policy exists to guide national programs for the food and farm sector or to link the needs of producers, consumers, low-income people, and those abroad who count on us. The first goal of this 1990 farm bill should be to develop such a policy -- one that addresses these diverse needs in a systematic and integrated fashion. If the basic goal of the food system is to ensure an adequate supply of nutritious food to meet domestic and international need in an environmentally responsible way and to ensure the social health of our rural communities, then we must consciously structure our agricultural production system to meet that objective. This means that all farm programs, including those dealing with credit, taxes, income and price supports, individual commodities, research, conservation, trade, aid, and domestic food assistance, must be measured for their contribution to this fundamental goal.

Farm program benefits should be structured to benefit family farming by targeting them principally to medium-sized and smaller farms. Such targeting is not met in current policy and programs. Credit programs and tax rules should be targeted in the same way. In a time of massive federal deficits, scarce resources, and concerns about the costs of farm programs in general, national farm policy ought to give the highest priority to supporting those farm families who work on farms and depend on them for their livelihood. These medium-sized and smaller farms make our farm system flexible, diverse and more capable of responding reasonably to changes in the overall economy than a system of concentrated ownership and control of food production. It is also socially and fiscally responsible and a wise investment to support these farms in order to avoid the serious negative impact their demise can have upon rural communities.

Current farm programs implicitly encourage farm expansion, overproduction, and the excessive use of chemicals. More effective targeting of limited funds to protect a volume of production sufficient to yield a fair income for each producing family would help ensure the survival of family farms and reduce program costs. This targeting must, of course, be defined carefully in order to prevent the operators of large farms from circumventing the targeting caps. Any targeting proposal should be based on a definition of income that includes both farm and non-farm sources. Farm benefits should not be based on unlimited volumes of production or pay excessive benefits to large farms.

The needs and concerns of minority farmers should receive special attention in the 1990 farm bill. Initiatives are needed to stem and reverse the rapid rate of loss of minority landholdings, particularly black farms in the South. The Farmers Home and Administration (FmHA) should target ownership and operator credit programs in proportion to minority populations in counties. An extension of credit could be aided by an appropriate expansion of FmHA staff, where needed, and by creating a national registry of minority-owned farms and farmers in order to record progress. The role of black land-grant universities and minority community organizations should be strengthened and provided sufficient funding to assist in the overall effort to redress the loss of minority owned farmland.

A more concerted effort to encourage responsible environmental stewardship should be a key element of this farm bill. Besides targeting benefits to more moderate-sized farms, federal farm programs should encourage and reward better stewardship of land and water. Farmers should be rewarded for adopting farming practices that sustain soil and water resources, and current barriers to the adoption of these methods should be eliminated.

Providing farmers with greater flexibility to rotate resource-conserving crops without losing their traditional farm

benefits would help reduce the excessive use of chemicals. This would also protect the soil, prevent contamination of groundwater, and provide more assurance to consumers that their food supply is healthy. To those who worry that such methods would reduce production and push up prices, I would cite the recent impressive study of Alternative Agriculture by the National Academy of Sciences as well as the invaluable experience of thousands of farmers currently employing these practices successfully.

Contamination of soil and groundwater by chemicals, particularly pesticides, presents special problems for rural people. While agricultural chemicals have made significant contributions to higher yields since World War It, there is mounting evidence that groundwater contamination is increasing because of pesticide use. The problem is particularly acute in rural areas, where 90% of the population depends on un-treated groundwater. Because the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA) is silent on groundwater and current farm policies generally promote chemical use, I especially urge you to make it feasible for farmers to adopt more sustainable agricultural practices in order to reduce chemical use. In this regard, a voluntary well-testing program could be instituted for information purposes as well as an education and technical assistance program to aid farmers with well-contamination problems and in adopting sustainable practices that prevent water contamination.

I would also urge the Committee to require that private applicators keep records of their pesticide usage and make those records available to farmworkers, their physicians, and appropriate government agencies. Without accurate records, it is virtually impossible to determine the relationship of specific pesticides in specific amounts to specific illnesses. Farmworkers, particularly seasonal and migrant workers (as well as many farmers), are exposed regularly to dangerous pesticides. Every year many farmworkers become sick and lose work time; some have even died from excessive pesticide exposure. Improved record keeping would facilitate medical treatment.

INTERNATIONAL POLICY RECOMMENDATIONS

In testimony before committees of Congress, the U.S. Catholic Conference has emphasized the need to look at the world food situation in terms of social justice, as well as the demands of charity. I believe that this view should govern our consideration of trade as well. As I have already emphasized, global food security is at risk, in part, because of current trade (and food aid) practices. It is imperative that the United States exercise the leadership necessary to improve the functioning of the international food system, because it is the single most important actor. Improved food policies by Third World governments are, of course, a prerequisite, and the

participation of other industrialized countries is important; but U.S. leadership is essential.

Trade proposals should be designed to actively promote self-reliant development in poorer countries. Trade policies should help developing countries improve their own agriculture in order to increase their own food availability. This will include support for genuine land reform and assistance in building the necessary infrastructure (credit, appropriate technology, transport, storage etc.). Special care will be needed to ensure that as new farm technologies are researched and developed, the developing countries and their small farmers can share fairly in their benefits.

At a minimum, direct export subsidies (the Export Enhancement Program and the Targeted Export Assistance Program) should be brought into line with the food security objective, even if that means eliminating them. Trade policy should also enhance the ability of developing nations to protect themselves against the damage done to their agricultural development as a result of competition between the United States and the European Community. The use of food as a trade weapon, no matter what the reason, must end.

I think that greater global food security and improved trade relations could be facilitated by the creation of an appropriately managed international grain reserve. Such a reserve could help to reduce price fluctuations, assist in achieving more orderly trade in grains and grain products, and support food aid commitments. In the United States the Farmer Owned Reserve and the Food Security Wheat Reserve should be maintained and the rules for operating these reserves tightened to assure stocks in times of great need.

Trade managed in the larger interest of equity, better stewardship of natural resources, and the needs of developing countries would clearly be a benefit to everyone, especially to those who are now at risk. In my view, however, many of the proposals to eliminate current farm programs in favor of "free trade" seriously threaten food security. Much U.S. farm policy assumes -- correctly, I believe -- that government support and planning for agriculture in both industrialized and developing nations is a responsible course of action.

Farm programs can and ought to serve the larger public purpose of advancing food security. Protecting our vital soil and water resources and fostering a family farm system of agriculture are in the public interest and cannot simply be left to the unregulated market; nor can food trade policy be left to a half dozen large multinational corporations. Farm programs are needed to serve society's larger interests in producing a sufficient supply of safe food, protection of family farmers, and to provide the stability necessary for environmentally sound agricultural development. Trade practices and policies should

not interfere with any country's ability to protect its environment, reduce poverty, or manage its food supply.

I am pleased to note that the Congress appears interested in modifying the Food Aid Program, PL-480. As I mentioned earlier, it seems to have drifted away from its original purpose of making US surplus food available to hungry people in poor countries. The additional purposes it has acquired over the years -- enhancing US markets, serving US foreign policy interests, and stimulating development -- complicate the program, blur its public image, and are not altogether appropriate. This criticism applies mainly to Title I, the concessional sales program, in which we loan the buyers the money to make the purchase; it would not, of course, apply to the free distribution of food, under Title It, to hungry people in relief and emergency situations.

DOMESTIC FOOD ASSISTANCE

I would like to bring these policy recommendations to and end by expressing strong support for the Committee's efforts to strengthen the food stamp program and other domestic food assistance programs which fight hunger in our nation. The cruel reality of hunger and malnutrition is a grim fact of life for too many Americans. Our parishes, our Catholic Charities agencies, our schools, others who try every day to feed the hungry continue to report that the number of people who are chronically hungry far exceeds their ability to serve them unless there is increased help from the basic federal food assistance programs.

Several improvements in the food stamp program need your support. In particular, we urge that basic food stamp benefit levels be increased at least to reflect the actual current cost of purchasing food under the so-called Thrifty Food Plan. We would prefer, of course, that benefit levels more closely reflect the real daily dietary requirements recommended under the USDA's Low Cost Food Plan. If the benefits do not at least meet the Thrifty Food Plan levels, the majority of those receiving food stamps -- the elderly, the disabled, children, and their mothers -- are penalized by lagging behind the inflation rate.

We also endorse proposals to increase food stamps for poor people whose shelter costs are high. Too many poor families are forced to choose between housing and food. This should not be. The current limit on shelter deductions is a particular burden to families with children. I believe it is a national scandal that poor families are forced into homelessness because they cannot afford both rent and food. Eliminating the cap on shelter deductions would be a helpful -- though minimal -- anti-homelessness provision.

There is also a need to fight homelessness through the food stamp program by allowing poor people to take in homeless relatives without losing benefits -- especially given the severe shortage of housing for the poor. Current rules force people to

apply as one household, even if they do not share resources or buy and cook together. An easing of these rules would also help farmworkers, who often have a home base in one state and double up with relatives in other states as they move with the migrant stream.

In regard to homeless children, we want to thank the Committee for its support last year of the special demonstration program to feed those under six who live in shelters. The Archdiocese of Philadelphia hopes to demonstrate that there are creative ways to overcome real difficulties in feeding these children through the regular child nutrition programs for which they are eligible. We must find better ways to get them nutritious food to ensure their healthy growth. The demonstration program, we hope, will provide us with practical examples of how to do this. We support efforts to make this program available elsewhere; we know from reports in other communities that this problem exists in other parts of the country.

CONCLUSION

My purpose in testifying today has been to emphasize the moral choices inherent in the development of food and agricultural policy. I urge you to adopt a comprehensive food policy that links in a responsible manner the interests and needs of U.S. farmers and consumers, our food trading partners, and the special and urgent needs of the hungry here and abroad. The 1990 farm bill also offers an opportunity to address creatively the emerging concerns about how to assist farmers and our society adopt new ways to protect better God's gifts of soil and water and the need for a more just distribution of farm benefits while protecting the needs of poorer nations.

At the conclusion of our recent statement on food and agriculture my brother bishops and I said:

> Solidarity is required among both urban and rural people if these problems are to be resolved. These problems know no boundaries; they do not stop at the gates of the cities or the borders of nations. We are bound one to the other. The response of the United States and of other nations to the challenges posed in the area of food and agriculture will enrich or diminish each of us, no matter where we live or what we do.

It is my hope that both our arguments and our proposals aid in the process of accepting the challenge to shape a more just and generous U.S. food policy.

The CHAIRMAN. We are kind of working down the country. We have gone from Vermont to Kentucky, and now we will go to Texas with the Commissioner of Agriculture Jim Hightower. Commissioner, come right on up here. You also are no stranger to this committee. You come in periodically, give us our marching orders, which we follow to a greater or lesser degree.

Mr. HIGHTOWER. Right. I wish it were so simple.

The CHAIRMAN. Good to have you.

STATEMENT OF JIM HIGHTOWER, COMMISSIONER, TEXAS DEPARTMENT OF AGRICULTURE, AUSTIN, TX, ACCOMPANIED BY BARBARA MEISTER, STAFF MEMBER

Mr. HIGHTOWER. With me is Barbara Meister, who is on my staff.

INTRODUCTION

I appreciate this opportunity to visit with you and with my friend Tom Daschle and other members of this committee.

FINE-TUNING THE 1985 FARM BILL IS REALLY NOT GOING TO BE QUITE ENOUGH

I want to start by echoing Bishop McRaith's comment that based on our experience down in Texas that just kind of fine-tuning the 1985 farm bill is really not going to be quite enough. I know there that are some people here in Washington saying we ought to be content really with the status quo, but like a west Texas farmer told me status quo is Latin for the mess we are in. And we do not need a whole lot more of that.

WE HAVE TO OFFER SOME NEW DIRECTION

I think we have to offer some new direction which is what I want to present to you here today, some alternative vision to the administration's decoupling or flexibility or whatever pseudonym they are using for their "good-bye and good luck program" that they have put forward for farmers. So we have packaged up a series of proposals here under the rubric of "New Beginnings" for agriculture. And it questions the basic assumption that we are hearing from the administration, from a lot of editorial boards and elsewhere, that the problem in agriculture is we have too many farmers. Our view is that we have too little opportunity for families to farm profitably, and to do so in balance with nature.

COMMON GROUND

Farmers are not the problem. In our experience down there trying to diversify, trying to move to sustainable agricultural practices, trying to market directly at home internationally, we find that farmers are the solution. They are the greatest resource that we have, and they are very willing to make major changes if they have the support mechanism behind them to make those changes. The other good news is that a number of the constituencies who have been cast as enemies of farmers, particularly consumers and environmentalists, frankly are able to find common ground in this "New Beginnings" proposal that we are submitting to you today, and after all, why not? I think if you were to go out here on the

street and stop any number of citizens and ask them what they wanted out of the food policy, give them a big chief tablet and a No. 2 pencil, that they would write down some of these same things that all Americans want. They want affordable food for all people. They want it to be reasonably priced, nutritious, tasty and safe. They want environmental soundness in our production practices, and they would like the benefits and the profits to be widely shared.

SUSTAINABLE AGRICULTURE

That common spirit is what gives us an opportunity, it seems to me, in the 1990 farm bill, to build toward a new sustainable agriculture, and today we are going to have groups from the National Farmers Union, American Ag Movement, to the Public Voice, and Food Research and Action Center, the Sierra Club, the National Wildlife Federation, Family Farm Coalition, Center for Science and the Public Interest, et cetera, standing with us on this proposal, bringing farmers and consumers together along with environmentalists, in some common spirit and a unified purpose, trying to steer America toward a 21st century agriculture that is based on a system of family farm agriculture that is economically as well as ecologically sustainable.

"NEW BEGINNINGS" REPORT

We encompass a wide range of proposals in this "New Beginnings" report. For example, we embrace Farmers Union, American Ag Movement's call for raising price support loan rates, repealing the Findley amendment, switching commodity programs from acre base to unit-of-production basis, expand financing to look for long-term financing for farmers, especially beginning and reentry and minority farmers, requiring country of origin labeling, establishment of farmer commodity reserve. I know, Senator Daschle, that there is a drought up in your country, and it reaches all down through the Plains into our State, and including all the way up to Senator Conrad's country, and this kind of a program would address that more effectively than what we have now.

I REALLY WANT TO HIGHLIGHT THE ISSUE OF SUSTAINABLE AGRICULTURAL PRACTICES

But in my time today I really want to highlight the issue of sustainable agricultural practices because I know that this Congress, not just this committee, really is focused on this issue quite a bit. The conventional wisdom says that there is where farmers and environmentalists and consumers part company, but that really is not the case at all. In fact, there is a study about to be released out of Iowa State University Extension Service which shows that 87 percent of corn and soybean farmers over there want to decrease their use of agricultural chemicals, and more significantly, of the farmers that are in the integrative farm management program in that State, which is a sustainable ag program, 96 percent of them want to decrease their use of chemicals even further.

But for sustainable to work, we have really got to address two versions of it or two aspects of it. One, it has to be economically

viable as well as ecologically viable, and the good news is based on our experience in Texas and what I know of work in other States, it is economically viable in the sense that people are making money through sustainable practices and saving farms that otherwise would be lost to bankruptcy. And the second need, though, is more fundamental, I think, for this committee is that we have to adopt sustainable as a matter of public policy. Just using it as a buzzword is not going to get the job done. After all, what we have now in agriculture, chemical intensive, high-tech, capital intensive agriculture is the direct result of enormous sums of public resources that we poured into that system over the past 40 years.

The commodity programs—we can remember Uncle Earl Butz and his get big or get out, and plant it fence row to fence row. Farmers did not do that by accident. They were encouraged to do that. The banking community, credit tied to strict chemical use schedules, extension agents to spread that technology and methodology. To make the shift, we have to push in the other direction, and that has to be embraced in Federal agricultural policy, not as a matter of heavy-handed regulation, but of extending the helping hand and rewarding those who want to make this transition. And what I am saying is we could use the life of the 1990 farm bill as a time of experimentation, of research and demonstration, of training and teaching and of transition.

You have a number of the proposals we have here that are already embraced in the legislation: the Jontz bill to allow farmers greater flexibility in transition financing to sustainable practices; your own sustainable agricultural bill that you will be proposing; Senator Daschle's initiative on competitive grants for sustainable agricultural research; your organic certification and national beef certification program; the Circle of Poison proposal that you have put forward; a new homesteaders' provision that we have offered; the minority farmers' rights acts that are supported by a number of organizations.

But I suggest that we need to take a couple of steps even beyond that. Again, based on our real life experience of trying to effect a transition on actual farms, we find that the greatest need is for hands-on, very common sense, pragmatic onfarm assistance. Even when you have a positive climate for change—as I say, farmers clearly wanting to make the shift—they are not certain how to do it. Arthur Dean Chaney in Bonham, Texas, a friend of mine, heard me talk about this to a group of farmers recently, and he got to me afterward and said I am with you on that. I want to make that shift, but I do not know how to farm like that.

We have to help these people make that transition, and that takes some hands-on work so we are proposing a couple of additional steps that will make a big difference in a hurry. One is a sustainable agriculture demonstration farm program. And the notion here is just as consumers can kick a tire before they make a purchase, that farmers can test drive this sustainable agriculture idea if we were to make a model of one working farm in every rural county in the United States. This would not only allow us to decentralize the research and the technology transfer of sustainable agriculture that would allow each local area to adapt the technology to their local needs, but it would also maximize that spirit of experi-

mentation that really is going to produce the results for us in this county, out of which then we can draw the best ideas for general use.

This is a pragmatic. It is an onfarm approach, and we would add to that a second program for a sustainable agriculture on-farm training and education network, literally a network of teachers, especially trained through the Extension Service, using the program you have suggested be established in extension to do the training, but drawing from farmers themselves, drawing from sustainable agriculture groups, drawing from graduate students, people who want to be out there, able to go on a farm and say this is how you use the biological control method on this particular problem, this is how you increase the tilth in your soil, specially trained people who can go hands-on out there. Again, the kind of common sense help that for very little dab of money—not only is it effective, but it is very cost effective—produces a very big result.

If we really want to have transition to sustainable agriculture, it is going to take this kind of hands-on experience to assist the farmers to make that move. It can be short-term, but it needs to be in place. A total of $50 million would finance both of those programs. $10 million in the outreach on-farm program that we have offered here. Well, it may be that there is very little will in Washington this year to design, to redesign the fundamental workings of Federal farm programs. But at least it seems to me we can use the 1990 bill to plant seeds of change in there that will increase the opportunities for family farmers to farm profitably and to foster an agriculture that is based on cooperating with nature rather than always trying to overwhelm nature. I appreciate your willingness to consider our proposals, and we look forward to working with members of this committee.

The CHAIRMAN. Thank you. I understand you were the driving force behind the national directors of agriculture's call for a national certification of organic farming. I know you have looked at our proposal—your statement reflects that. I certainly would hope you will keep in touch with us on it. As I go around the country I find an awful lot of people, in Vermont and elsewhere, say they want to try organic farming, but they also feel a little bit frustrated when they go into the economics of it. They walk into a store and the owner of the store tells them, well, we already have natural food or we have organically grown food, which is anything but, because there is no way to certify that food is organically grown. That does not mean that everybody is going to turn to that kind of farming——

Mr. HIGHTOWER. No.

The CHAIRMAN [continuing]. By any means. But at least those who want to ought to be able to do so. Those who, as consumers, want food organically grown and are willing to accept whatever changes that might mean in either appearance or anything else ought to have a way of knowing that is what they are getting. So I would assume you feel that if we could have some kind of a workable, concise, uniform certification procedure that that would be a help for organic farming.

Mr. HIGHTOWER. It would be a very big help for organic farming, very big help for consumers and the marketplace. We developed

our standards down in Texas through a task force that included the wholesalers and retailers and that is what we found. Not only did they want standards established, but they wanted some inspection system, some third party certification that this, indeed, is an organic product produced according to those standards. That is, after all, the largest, fastest growing segment of the food industry. We started thinking we would get a few farmers certified and that would make a difference. We had 30 farmers certified under our program a year ago, and our program, by the way, is we go out on the farm, we test the soil annually, and assure that the farmer is complying with these standards.

Today we have 140 farmers certified. We had 1,000 acres in production last year. We will have 4,000 acres in production this year. You are looking at a tenfold increase in the volume or organic production that will move, and it is moving, not to just heath food stores and exotic corner grocery stores. It is moving in the mainstream marketplace; Kroger and Safeway, and HEB in our State, have organic sections now. And farmers who are moving into it are not just ex-hippies like Senator Conrad there. They are mainstream farm operations that are operating on 1,600 acres of vegetables and grains; 22,000 acre West Texas ranches are converting. Converting because, one, there is a market place there, and two, it lowers their costs. It works.

The CHAIRMAN. What is the size of that? 22,000?

Mr. HIGHTOWER. Well, you got to understand, Senator, that 22,000——

The CHAIRMAN. That is a little bit larger than most of our counties back in Vermont.

Mr. HIGHTOWER. The difference is there is only one blade of grass on each of those acres out there. [Laughter.]

And it takes a pretty big spread even for a family sized operation.

The CHAIRMAN. Of course, if we flattened Vermont out, it would be close to your size anyway.

Jim, let me yield to Tom Daschle. You have farms out there, too.

Senator DASCHLE. One or two, with a couple of blades of grass. No more.

The CHAIRMAN. I visited most of them. I spent more time in the last couple of years in North and South Dakota because these guys are—just to keep me in line, they keep bringing me out there to see the farmers of the Dakotas.

Senator CONRAD. Mr. Chairman, when will you be making your next visit to North Dakota?

The CHAIRMAN. Tomorrow, is it not? [Laughter.]

Mr. HIGHTOWER. Does it coincide with——

Senator DASCHLE. The chairman has acknowledged knowing Kent well, and he and I both know that Kent does like to take his hearings out to North Dakota.

Mr. HIGHTOWER. Right. North Dakotans are grateful for that.

Senator DASCHLE. To me, the point you make about flexibility and its tie to sustainable agriculture is the most important point we can make this morning, as we talk about things other than income per se. I am convinced that flexibility has a lot of connotations. As you say, for some it means decoupling or, as it was said in

this room, delinking, which is supposed to be different, I guess, than decoupling. But it also means having the opportunity to try alternative methods, and not only to try them but to try them without prejudice. Today, I think farmers are in a straitjacket with regard to farming practices. We have devised a system that locks them into a straitjacket of practice that only the courageous ones or the extremely dedicated ones under the very best of circumstances can get out of and develop alternatives to.

And if we do anything during the next 5 years, I hope it is to follow your advice to use the next 5 years as an opportunity to explore alternatives, not necessarily to come to any final determination, but in terms of policy, to loosen that straitjacket to give producers more of an opportunity to try alternatives and to be flexible.

I think if there is one word that I hear said over and over about our goal in this farm bill, as limited as the articulation of those goals are, it is we want everybody to be flexible. Well, if we really are sincere about that, we have to look at sustainable agriculture as a real opportunity to show our determination to be flexible. So you have hit the nail on the head as far as I am concerned, and I think that it is not enough simply to say that we will relegate this newfound interest in sustainable agriculture to the inner sanctums of the greatest agricultural universities in the country. That is not going to do it. We have to get it in the hands of the producers.

I would only ask if you would care to elaborate a little bit more on applied science rather than on the basic science as it directly affects our research into sustainable agriculture?

Mr. HIGHTOWER. Well, it takes that kind of hands-on work, and we have sort of scrambled here and there and patched it together as best we can. Some of it out of the Texas A&M and other 50 agricultural educational institutions that have agricultural programs in the State. But also farmers helping farmers has been the most effective way for it to work as we diversified into agriculture and blueberries and wine grapes and that sort of thing. The barriers are very real. The barrier in the commodity program that the Jontz bill addresses of your base being, corn base or whatever being lost if you decide to rotate out a third of it a year, or you want to put in a different crop 1 year, you lose that amount in your base the next year.

We have to take that disincentive out. But the disincentives also are in the lending communities. You go to Farmers Home Administration and say I want to do wine grapes, and they will say that is not agriculture. We will loan you money on cotton. And you will say, well, I am going to lose $200 an acre on cotton even with the taxpayer's subsidy, but I make $1,200 to $2,500 an acre profit on grapes. That is great, but that is not agriculture. We have to loosen that financing flexibility out. If the money is not there to put into it, we are not going to diversify. We are not going to have those sustainable practices. And there is a tendency in too many of the government bureaucracies, among at least one of the farm organizations, and among some of their researchers, to scoff at these new crops, when, in fact, they are not the new mainstream that is coming along.

For example, in the Rio Grande Valley, we are producing some 90 percent of the aloe vera that is being produced in the United States, and that was a nothing crop in 1972. Today it is a $59 million a year crop. That is bigger than our citrus industry is in a very, very short period of time. It survives the freeze. We lose the crop, but it does not destroy the plant. It comes back up—the hard winter freeze that we had at Christmas time. These are the pioneers of the new agriculture, and we have to invest in them. Part of it is taking the disincentives out. Another part, though, is what I was suggesting here, and as you suggested in your research program, through competitive grants, and as we are suggesting with actual on-farm assistance, to help these people make the change. They are out there. They want to do it. They have the gumption. They need some expertise, and that is not expertise that is necessarily dwelling in the land-grant institutions today. Some of it is there, and it should be called forward, and I think they want to put it to use, but we need more than that, and we need that hands-on outreach.

Senator DASCHLE. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman. The closest I came to being a hippie was going to school in California.

Mr. HIGHTOWER. They are still laughing about that in North Dakota.

The CHAIRMAN. I wanted to be one, Kent, but I could not grow my hair long enough. [Laughter.]

Senator CONRAD. When did you lose your hair, Mr. Chairman.

The CHAIRMAN. Just in time to run for the Senate. Otherwise, I never would have been elected in Vermont.

Senator CONRAD. Well, I was looking, Jim, with great interest at your testimony. The effect of what would happen with freezes on target prices, what would happen with the continuation of the 1985 bill. And I think this is one area that has not received enough attention. According to the Agriculture and Food Policy Center at Texas A&M, freezing target prices on a wheat sorghum farm in Northern High Plains would drop farm profits from $24,000 in 1989 to a net loss of $50,000 in 1994. That is with the freezing of target prices.

In every one of these examples, every farmer would suffer dramatic declines in farm income. I mean it is an absolute disaster, and we have just completed a series of hearings, Senator Daschle, Senator Kerrey, Senator Harkin, and I went to each of our respective States, Senator Exon joined us in Nebraska, and you have some people telling us to freeze target prices. And the lesson and the message of your testimony is that is an unmitigated disaster; is that right?

Mr. HIGHTOWER. Well, the target prices that we have consistently been lowering, then the addition of the 20 percent drop that is added by the Findley amendment each year, has been disastrous. That is why we have lost 681,000 farmers during the wretched decade of the 1980's.

Senator CONRAD. What happened to the record farm income we hear so much about?

Mr. HIGHTOWER. Well, the taxpayer paid for most of that record farm income. And even that massive taxpayer subsidy has not been enough to reach a break-even point.

Senator CONRAD. I have a chart. The decade of the 1980's, when you adjust for inflation, you get quite a different a picture. If you take out inflation, you have record low farm income. The 1980's is the lowest farm income of any decade since they started keeping records in 1901.

Mr. HIGHTOWER. By the way, let me add me there, Senator Conrad, that FAPRI, Food and Agriculture Policy Research Institute, out of Iowa and Missouri, is projecting now that under the current program that U.S. net farm income peaked last year. So all this glory hosanna about last year being such a tremendous year, it was a tremendous year in relationship to 1988, which was a lousy year in comparison to 1978. And now it is declining. It is going down.

Senator CONRAD. Well, that chart makes the point. Take inflation out of it, the lowest decade net farm income is the decade of the 1980's, of any decade since they started keeping records. And somehow we have to get that message out. It is very difficult when the Secretary of Agriculture runs around the country telling everybody it is record income, record income. It just sounds great. You come to my State it is not great. It is a nightmare out there. You talk about economic hardship. Everywhere we look it is a disaster.

Mr. HIGHTOWER. Well, there are not a lot of farm families who are having steak dinners celebrating a record income, I can assure you of that.

Senator CONRAD. No, no. It is remarkable how many of them have to get food stamps in my State who are the food producers. Let me ask you this. You have proposed going to a bushel base.

Mr. HIGHTOWER. Yes, sir.

Senator CONRAD. Some have said, well, we cannot follow the bushels. That would open it up to abuse. What is your answer to that?

Mr. HIGHTOWER. Well, we can follow the bushels. We do it in some commodities right now. Governor Kunin was here earlier testifying about a dairy program that they have, and it is based on pounds and it works. And I think you will hear from Farmers Union and American Ag and some of the other farm organizations that have had experience. We have been on a bushel base before in this country. This is not like a novel idea. We were able to follow it then, and now we even have computers that are going to be able to track it if we keep them up, supposedly even with a greater level of fine-tuning. So I just think that is a nonsense argument.

Senator CONRAD. All right. Well, in the interest of time I will forgo additional questions Mr. Chairman.

Senator KERREY [presiding]. Senator Daschle, have you already asked questions?

Senator DASCHLE. I already have. Thank you, Mr. Chairman.

Senator KERREY. Well, I have none at all for you, Mr. Commissioner, other than does that size 5 beaver mean that you are a man of the people?

Mr. HIGHTOWER. Indeed.

Senator KERREY. Instead of having a size 10 like I have?

Mr. HIGHTOWER. Exactly. I am not making as much money as you are, number one. [Laughter.]

And number two, with Senator Pryor, who was here earlier, an Arkansas man snuck in and bought the Dallas Cowboys out from under us, so now we do not leave anything of value in Texas when we leave home for fear that some Arkansas creature is going to go over and buy it out from under us so I travel with my hat.

Senator KERREY. Well, it is nice to have you here. Thank you very much.

[The prepared statement and appendix A of Mr. Hightower [13] follow:]

[13] "New Beginnings," Texas Department of Agriculture, Analysis of America's Farm and Food Policies, March 1990, Texas Department of Agriculture, P.O. Box 12847, Austin, Texas 78711 is retained in the committee file.

Testimony by

Jim Hightower
Commissioner, Texas Department of Agriculture

before the

Committee on Agriculture, Nutrition and Forestry

United States Senate

March 21, 1990

A New Beginning for American Agriculture

I thank you for the opportunity to testify before you today and present my views on the 1990 farm bill and what I call a "New Beginning" for farm policy.

The 1990 Farm Bill obviously is on the fast track this spring, and there seems to be a lot of folks in Washington arguing that, by and large, we should be content to stick with the *status quo* in basic farm-policy approaches. But, like a West Texas farmer told me recently, status quo is just Latin for "the mess we're in." Here's what the mishmash of today's farm programs has done to hundreds of thousands of farmers:

- It has busted their market prices.
- It has chained them to the production—and often the *over*production—of a few storable commodities.
- It has contributed to the depletion and contamination of agriculture's natural resources.
- It has sopped up intolerable amounts of taxpayer subsidies.
- It has undermined public confidence in the fairness of our system of farm supports.
- And it has called into question the quality and safety of our food supply.

The 1990 Farm Bill gives us the chance to offer a "New Beginning" for American agriculture—to move toward a modern system of farming that unites and serves the common interests of the majority of people including family farmers, consumers, environmentalists, and workaday taxpayers who, after all, should be the focus of farm policy. Groups representing each of these interests are already working on different aspects of the 1990 bill.

Today, I am here to voice a unified purpose for the separate efforts of many of these groups, and to present a package of proposals that encompass their common spirit and that steer America toward a 21st century system of family-farm agriculture that is both economically and ecologically sustainable. All of us are working for an agricultural system that will ensure a safe, nutritious, good-tasting food supply at a reasonable cost for all. It will help conserve our precious soil and water resources. It will reduce our dependence on toxic chemicals and synthetic fertilizers. And, most importantly, it will help keep family farmers on the land, maintaining their stewardship of our resources for the generations to come, advancing the most efficient, high-quality food production system in the world.

We are told that there is little will in Washington this year to redesign the fundamental workings of federal farm programs, but we must use this 1990 bill to point those programs in a more sensible policy direction. Present policy has at its core the notion that fewer farmers can achieve more production. But I question that basic assumption — America does not have too many farmers; we have too many farmers locked in a production and marketing system in which they constantly strain themselves, their financial resources and their soil and water just to keep afloat. The truth is that our federal farm policies afford too little opportunity for families to farm profitably and in balance with nature.

As you write this farm bill, I urge you to plant seeds of change in it that increase opportunities for farm families and that foster an agriculture based on cooperating with nature rather than overwhelming it.

Common Ground

Our "New Beginnings" proposal starts by asking three basic questions:

(1) What does our society want federal farm policy to achieve?

(2) Who can best implement that vision?

(3) What tools do they need to do the job?

Stop any number of citizens on the street, give them a Big Chief tablet and a #2 pencil and ask them to write down what a comprehensive farm policy should achieve, and chances are they'll write some version of this: affordable food for all... reasonably priced... nutritious and tasty and safe... environmental soundness... a broad sharing of the benefits and profits of agriculture.

Who can implement these goals? Not Toyota. Not Merrill-Lynch. Not farm and food conglomerates. It's the family farmer—who lives on the land, makes the majority of his or her living by farming, wants to provide stewardship for the next generation, and is concerned about long-term community benefit as much as short-term profit—who can be counted on to deliver what the larger public wants from the farm economy.

This is the point at which the interests of consumers, environmentalists and family farmers converge, and this common ground should be the focus of farm policies that you write into the 1990 legislation. Let us build on the natural proclivity of family farmers to be good stewards, to take pride in quality and to be innovators by providing for them some tools to make big changes.

The "New Beginnings" report that I have submitted discussed a wide range of tools that we think should be written into this year's legislation.

As you'll see, I urge you...

- to raise price-support loan rates;
- to repeal the Findley amendment;
- to switch commodity programs from bushel bases to unit-of-production bases;
- to expand financing for farmers—especially beginning, re-entry and minority farmers;
- to require country-of-origin labeling on imported foods; and

• to create a Farmer Commodity Reserve to compensate farmers and stabilize the market in times of natural disaster.

At this hearing, however, I will highlight some of the tools needed to begin reducing chemical use in agriculture. This is not merely a goal of environmentalists and consumers, but also of farm families. A study about to be released by the Iowa State University Extension Service shows that 87 percent of corn and soybean farmers surveyed want to decrease their use of agricultural chemicals. Even more impressive, of those corn and soybean farmers participating in Integrated Farm Management, a sustainable agriculture program, 96 percent say that they want to decrease their chemical use even further. Naturally, they want to do this because it will lower their costs, but they also want to make their farming environment safer and improve the quality of products from their farms. Farmers aren't any different from the rest of us. They want safe, affordable food. They want their families breathing clean air and drinking clean water.

But this change from ever-more chemical use won't come unless we make it come—not by heavy-handed regulation, but by policies that encourage and reward less chemical use. After all, the high-tech, high-energy consumption, high-chemical using, high-capital absorbing, intensive system of farming we now have is not the result of some natural order of things. It exists because this country pumped enormous resources into encouraging just such a system for the past 40 years, including the use of federal commodity programs (remember Earl Butz: "Get big or get out" and "plant fencerow to fencerow"), credit tied to strict chemical schedules and Extension agents to teach the intensive-production methods. To change requires a similar push in another direction and some re-teaching. A grain farmer recently expressed it to me, "What you're saying is right. I want to find my way out from under these chemicals. But I don't know how to farm that way. They can't just cut us off. I need to learn how to do it." He's right, and it is our proposal here that we use the life of the 1990 farm bill as a time of teaching, research, demonstration and transition, providing incentives and hands-on technical assistance to help thousands of farmers make the change to sustainable agricultural practices.

The good news is that those who do get access to tools of change put them to good use. Joe and Peggy Maddox, for example, turned their economic situation entirely around. The Maddoxes are ranchers near Colorado City, in the Texas South Plains. They have a pretty substantial operation out there—they raise livestock on 22,000 acres. That's a lot of acres, but there's only about a blade of grass per acre in this dry region, so even a family-sized operation is pretty spread out.

Joe and Peggy are smart and hard-working, and they run a fully-modernized enterprise, just as they had always been told by the bankers, government extension agents, and chemical company representatives. But the practices they had been taught simply were not working for them. Using such traditional practices, they had accumulated a debt of more than $3 million. They were desperate, on the verge of bankruptcy. Their son had decided to study business in college, convinced that there was no future back on the ranch.

But the Maddoxes got lucky. In 1986, they attended a session sponsored by Holistic Resource Managment, a small institute that's been working with ranchers in that part of the country to show them how to move toward a system of sustainable ranch management. Now Joe is no hippie—I mean, this is a guy who's 48 years old, he's burly, he shaves each and every day, and he's wearing boots, not sandals. He is as mainstream a rancher as they come.

Joe and Peggy converted to sustainable practices. They stopped putting expensive chemicals out there to kill the mesquite and kill the weeds. They stopped putting chemicals out there to deal

with the coyotes. Instead, they got dogs to herd the animals and burros to protect the animals. They began to rotate the herds from pasture to pasture, and that meant the old hardpan was broken up, so when the occasional rain did wander across this semi-arid country, the soil was able to absorb it, instead of letting the water just run off down to the Gulf of Mexico. And, lo and behold, that single blade of grass per acre that they had been getting became two blades of grass per acre, and they were able to increase their production. The result is that, today, they've knocked their $3 million debt down to $400,000, and they are on schedule to have their debt completely paid off by 1993. They're going to be able to keep the ranch. Their son, Dalton, ended up getting an agriculture economics degree, and he and his new bride have come back to Colorado City to ranch. Joe Maddox told me, "We're making money now, staying in business, whereas before we switched to these methods we didn't see a way we could stay in business. These new methods we're using have put the fun back into farming, and it is a lot of fun!"

Sustainable Agriculture

In Texas, we are finding that farmers and ranchers will use fewer chemicals if they get the expertise and financing to make the transition, and if it is profitable to do so. Sustainable agriculture will spread not only because it makes sense, but also because it makes cents. We have enough experience with sustainable practices throughout the country to know that this approach works, but to generalize the opportunity requires new policy initiatives.

I fully support Congressman Jim Jontz's new beginning in his bill, H.R. 3552, which proposes to protect the income of those farmers who decide to make the switch to sustainable agriculture over a five-year period. We need to change those provisions in the farm bill that currently keep farmers and ranchers tied to a system of capital-intensive, chemical-intensive farming methods. Under current law, if a mainstream farmer implements a crop-rotation plan and utilizes less than his or her full "base" of any program crop, the base is automatically reduced and the federal subsidy payments will be cut back. Add to this the temporary drop-off in per-acre yields that can be expected during the three to five years it takes to rebuild the soil, and crop rotation simply is not a viable option under the status quo.

The Jontz bill would give farmers the flexibility they need to make a "New Beginning" with sustainable agriculture methods without risking bankruptcy during the transition period. In addition, we need to switch to unit bases—that is, to bushels, pounds, bales, etc., in place of the current acreage bases. This would bring more stability to the market while giving farmers more room to maneuver.

Demonstration farms

The rapid adoption of sustainable techniques and practices will depend on our ability to move information quickly into the hands of the producers. We support the development of a national training program in sustainable agriculture for extension agents and other agricultural leaders.

I propose that we take a further step by creating a national Sustainable Agriculture Demonstration Farm Program. Just as consumers "kick the tires" before buying a car, farmers can "test drive" the sustainable idea if we make a model of a working farm in each agricultural county in the nation. Not only would this decentralize the research and technology-transfer for sustainable agriculture, allowing each local area to develop the most effective methods and technologies for its producers, but it also would maximize the spirit of experimentation throughout the country, out of which we

can draw the best ideas for general use. This pragmatic, on-farm approach has proven effective wherever it has been attempted, and it is extremely cost-effective. A full national program could be operated for less than $50 million annually.

In combination with this program, I propose the creation of a local and regional Sustainable Agriculture On-Farm Training and Education Network (OFTEN). This network of teachers can be drawn from farmers themselves, graduate students, sustainable agriculture organizations, extension agents, and others who undergo special courses to become on-farm trainers. The training programs for the farmer-teacher network could be developed and administered through existing and planned sustainable agriculture research and development centers. This is the kind of common-sense help that farmers need most and that the nation needs if we are to achieve a major conversion to sustainable practices. An allocation of $10 million from the $50 million annual expenditure for the Demonstration Farm Program would provide the necessary materials for local education and outreach, staff support, overhead costs and trainer compensation of OFTEN.

We also need an immediate and significant boost in funding for sustainable agriculture research. The National Academy of Sciences has proposed that substantial funding be made available in competitive grants to researchers who will look for ways to make sustainable agriculture a healthy and profitable reality in the next century.

In order to preserve our fragile wetlands and prairies, we need to reauthorize the current sodbuster and swampbuster provisions in the farm bill, and we need to enhance the Conservation Reserve Program by allowing future program participants the option of using CRP grasslands for haying and/or grazing in exchange for lower CRP payments. Further, because of the incidence of groundwater contamination with nitrates, loss of soil fertility, soil erosion and the pollution of lakes and streams by chemical runoff, we feel that communities would greatly benefit from technical assistance and cost-sharing in the treatment of soil and water resources. We specifically recommend a USDA well-testing program for all communities concerned about nitrate levels in their groundwater.

New Homesteaders

A key but unspoken question in the farm bill debate is: Who will farm the land in the 21st Century?

Many of the farmers driven off the land were those who were just starting out or who had not yet been able to pay off their land. The average age of American farmers is now over 52. Two years ago, Matthew G. Smith, of USDA's Economic Research Service, wrote:

> Nearly half of all farm assets are owned by farmers who will probably retire within ten years, yet fewer than one in three younger operators is in a strong position to purchase those assets.... Farm cooperatives and service firms that survived the shakeout of the 1980s may find themselves confronted with an equally serious erosion of their customer base in the 1990s as their established customers gradually retire, replaced by fewer new operators....

If our system of family farms and rural communities is to survive, we need federal farm credit policies which once again make it possible for beginning, minority and re-entry farmers to get started in agriculture. Our "New Homesteaders" proposal includes interest buy-downs, a lease-purchase program and a multiple-year approach for operating loans. The Iowa survey I mentioned

earlier indicates that young farmers are also more likely to be the ones to accept the need for a change in farming methods and to switch to sustainable agriculture practices.

In addition, I strongly endorse the Minority Farmers' Rights Act as proposed by the Federation of Southern Cooperatives, the Interfaith Action for Economic Justice and the National Family Farm Coalition.

Consumers and farmers are ready to work together to ensure the quality and safety of our food are protected. We at the Texas Department of Agriculture offer our organic certification program as a model for a national program. I commend Senator Leahy for his introduction of the Organic Foods Production Act of 1990 and stand ready to assist him in his efforts. In Texas, we have seen an increase of 233 percent in the number of certified organic farms this year, from 60 growers to 140. There has been a 400-percent increase in the number of certified acres. This year's crop should be ten times the amount sent to market last year. Organic farm-ing is fast becoming a major part of the profitable mainstream of agriculture. It is here to stay.

In addition, I fully endorse Sen. Leahy's proposal to end the "circle of poison" created when pesticides not allowed for use by our producers are exported from the U.S. to other nations. I also support efforts to establish a country-of-origin labeling program and an adequate fish inspection program to protect consumer health and safety.

I oppose any efforts by the Administration to eliminate federal farm programs by negotiating them away in the GATT talks. In addition to prohibiting export dumping, a fair and workable GATT agreement would affirm the right of member nations to implement domestic policies that assure price and production stability, promote food self-sufficiency and, in general, promote the economic health of their agricultural sectors. GATT should be about the business of setting floors for food safety, not ceilings, as the Administration proposes.

I hope you will consider the "New Beginnings" we recommend.

I look forward to working with all of you toward a prosperous, sustainable, family-farm-based system of agriculture.

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Appendix A

Jim Hightower

Texas Commissioner of Agriculture

On federal commodity programs

What is the outlook for rural America if the 1990 farm bill freezes price supports and target prices—or even continues the reductions begun by the FSA'85?

The Agricultural & Food Policy Center (AFPC) at Texas A&M University studied the impact of both frozen target prices and declining target prices on six representative Texas farms (all assumed to have 40-percent debt-to-asset ratios) from 1989 through 1994.

According to AFPC, freezing target prices would have a devastating effect in Texas by 1994:

- A large cotton farm (two-thirds dryland, one-third irrigated) in the Southern High Plains of West Texas would suffer a 65-percent drop in net cash income, from $103,350 in 1989 to just $36,170 in 1994.
- A medium-sized cotton farm (same ratio of dryland to irrigated) in the Southern High Plains would drop from a $25,520 profit in 1989 to a year-end *loss* of $26,000 by 1994.
- A wheat/sorghum farm in the Northern High Plains would drop from a $24,130 profit in 1989 to a net loss of $50,100 in 1994.
- A corn/sorghum/cotton farm in the Texas Coastal Bend near the Gulf of Mexico would experience a decline in net cash income from $41,760 in 1989 to only $1,800 by 1994.
- A cotton/wheat/corn/sorghum Central Texas Blacklands farm with a net cash income of $49,400 in 1989 would see it drop to $21,130 by 1994.
- A cotton/wheat farm in the Rolling Plains of near West Texas, with a net cash income of $22,830 in 1989, would fall off to $18,680 by 1994.

The outlook is even dimmer if the 1990 farm bill continues *reducing* target prices. Even the least-impacted farm in the study, the farm in the Rolling Plains, would drop from a net cash income of $22,830 in 1989 to just $9,420 in 1994—a poverty-level existence.

(continued)

Appendix A

At least it's an existence. For the rest of the farms in the study, economic survival would become impossible:

- The large farm in the Southern High Plains would experience a 99-percent drop in net cash income—from $103,350 in 1989 to just $1,040 in 1994.
- The medium-sized farm in the Southern High Plains would go from a 1989 net cash income of $25,520 to operating in the red in 1994 with a loss of $42,250.
- The farm in the Northern High Plains would slide from a $24,130 profit in 1989 to a year-end loss of $82,500 by 1994.
- In the Coastal Bend, the farm with a $41,760 net cash income in 1989 would operate in the red by $17,270 by 1994.
- The farm in the Blacklands would see its net cash income drop from $49,400 in 1989 to just $2,270 by 1994.

Likewise, the Food & Agricultural Policy Research Institute (FAPRI) projects that under current programs, U.S. net farm income peaked last year and will decline steadily, in real terms, as the decade progresses. According to FAPRI, inflation-adjusted annual net farm income for 1995-98 will average 29 percent less than its 1989 level.

This is unacceptable.

While there clearly is little momentum for a major reform of commodity programs this year, there are substantial changes I would urge Congress to make in current policies. Each of these changes would, to varying degrees, both help farmers and reduce the costs to taxpayers:

Bushel bases: Supply management programs should be based on units of production (bushels, bales, pound, etc.) rather than on acres.

Loan rates and target prices: We continue to support raising price-support loan rates to cost-of-production levels. Short of that, however, we recommend that at least target prices be raised to cost-of-production levels and indexed to increases in the cost of production. Then, to minimize budgetary exposure, loan rates should be raised commensurate with the increases in target prices.

The Findley amendment: We recommend repeal of the Findley amendment.

Senator KERREY. The first panel we have this morning is Mr. Leland Swensen, the president of the National Farmers Union; Mr. Eugene Paul, the special assistant to the president of the National Farmers Organization; Mr. Harvey Joe Sanner, the national president of the American Agricultural Movement; Mr. Dean Kleckner, the president of the American Farm Bureau Federation; and Ms. Helen Waller, the chair of the Agriculture Policy Committee of the National Family Farm Coalition.

First, as I think you were all notified yesterday by the chairman, I would like to have you try to keep your opening remarks to the 5 minute limit since we have many witnesses to get through today. On behalf of the full committee, we appreciate your active participation already, and we look forward to your continued participation in the development of the 1990 farm bill. We would now ask you to begin in the order that I called you. Mr. Swensen of the National Farmers Union.

STATEMENT OF LELAND SWENSEN, PRESIDENT, NATIONAL FARMERS UNION, DENVER, CO

Mr. SWENSEN. Thank you, Mr. Chairman.

INTRODUCTION

I am Leland Swensen, president of the National Farmers Union. I appreciate the opportunity to be here today, and as you requested in the letter of invitation, I will try to highlight some of our positions and recommendations for the 1990 farm bill. I want to pledge to all the members of the committee our cooperation in your efforts. A complete text of our position has been distributed for your consideration, and looking at the gavel on the mantle behind you it provides encouragement to meet your deadline, and I will try do that.

THANKS

Two weeks ago today, the National Farmers Union was winding down its 88th annual convention in Oklahoma City, and I would like to take this opportunity, if I may, to thank Senator Daschle for keynoting our banquet and sharing with our members an exciting presentation on the future of agriculture from his point of view.

Senator CONRAD. Daschle's presentation was exciting?

Mr. SWENSEN. It sure was. I also want to express our appreciation to two outstanding staff members or directors, Chuck Riemenschneider and Chuck Conner for their presentation and effort in helping make our meeting a success.

THE SITUATION TODAY IN AGRICULTURE IN RURAL AMERICA IS NOT ACCEPTABLE

The situation today in agriculture in rural America is not acceptable. We urge that the parameters and objectives of the 1990 farm bill be to sustain family farms, to sustain natural resources, to sustain our rural communities, and to sustain adequate and safe supplies of food for consumers. Farmers Union supports the establishment of an inventory management program for the 1990's, structured in such a manner that it enhances net farm income or a

word seldom heard, and that is profitability, for family farmers and ranchers. This program should be structured to address the budget concerns by decreasing the dependency on income deficiency payments that are received from the government.

DAIRY PROGRAM

Regarding the dairy program, we oppose any authority to allow the Secretary to continue to lower support prices. A price support of $10.10 or $10.60 per hundredweight is below cost of production and is unacceptable. We oppose any type of whole herd buyout program.

WE URGE YOUR ADOPTION OF A TWO-TIERED PRICE SUPPORT PROGRAM

We urge your adoption of a two-tiered price support program, and the price support on the first tier of production should be at the cost of production with the support price dropping on any production over that established base to 25 percent of the support price. The production base would take into consideration national demand, commodity program distribution, reserve requirements and include authority for expansion of base on growth and domestic demand or exports. Recent production history would be the base of calculation, and even though it would not reverse the trend of recent concentration, we believe it would slow it considerably and enable beginning producers to get into dairy production.

REGARDING WHEAT, FEED GRAINS AND OILSEEDS

Regarding wheat, feed grains and oilseeds, we oppose any authority which would allow the Secretary of Agriculture to lower target prices and loan rates. Today exists a situation in agriculture in which the support levels have established artificially low commodity prices. The Department of Justice and the Interstate Commerce Commission and the Packers and Stockyards Administration have closed their eyes to the elimination of a competitive market and price manipulation that have been brought about by growing concentration. Producers do not have equal bargaining power when negotiating contracts with integrated giants. Their only economic protection lies in your hands in the structure of the 1990 farm bill.

WE ARE OPPOSED TO THE ESTABLISHMENT OF A MEANS TEST FOR FARM PROGRAM PARTICIPATION

We are opposed to the establishment of a means test for farm program participation. Gross incomes from farming and gross agricultural sales levels vary significantly per commodity and do not reflect profit capabilities. Farmers Union calls for the continuation of a target and loan support program with target prices set at the cost of production and indexed to inflation. We urge you to repeal the Findley amendment and to set loan rates at 75 percent of the target price. Repealing the Findley alone is not enough for necessary improvements in farm income or needed budget savings. We urge that the support price between all commodities including oilseeds be equalized by raising target prices on oats and barley, et cetera, not by lowering corn.

WE URGE THAT INDIVIDUAL COMMODITY BASED STRUCTURE OF TODAY BE REVISED TO ESTABLISH A NORMAL CROP ACREAGE BASE

We urge that individual commodity based structure of today be revised to establish a normal crop acreage base. This would enable better management decisions to be made by the producer.

Senator KERREY. Mr. Swensen, if I could get you to summarize your statement, I would appreciate it.

Mr. SWENSEN. Yes. This would enable better management decisions to be made by the producer taking into consideration conservation needs and market demands. Planting flexibility can be appropriately structured to protect all producers by restricting the percentage of planting changes in program crops. We also urge consideration of multiyear set-asides enabling cover crops that possibly could be harvested during natural disaster to eliminate pressure on highly erodible harvesting of CRP lands. One point I would like to make, Senator, if I may, and that is as demand is expressed in bushels and pounds, we urge that the basis be targeted to bushels and pounds. Capping the amount of bushels which will be supported, taking into consideration domestic needs, export needs and reserve requirements, would enable Congress to meet, not only meet, but to exceed the budget pressures.

CONCLUSION

In closing, let me emphasize that the decision that you make in regard to the farm bill will have an impact on rural America far beyond the farm gate. We see it in the debate over taxing and for education today. We see it in the closing of rural businesses. There is no competitive market in which to move agricultural commodities. The loyalty and interest of the international grain trade is only to its bottom line and to its stockholders. Your responsibility is to the people of America, producers and consumers, and to assist with the program that would sustain our natural resources. Do not sell out this country's food security.

Many changes in government have occurred throughout the world recently but not because of civil war or covert action, but because people become hungry for democracy and food. Thank you.

[The prepared statement and attached Special Order of Business of Mr. Swensen follow:]

NATIONAL FARMERS UNION

Testimony of

LELAND SWENSON, PRESIDENT

NATIONAL FARMERS UNION

Before the Senate Committee

on

Agriculture, Nutrition, and Forestry

March 21, 1990

600 Maryland Avenue, S.W. • Suite 202W • Washington, D.C. 20024 • Phone (202) 554-1600

Thank you, Mr. Chairman. I am Leland Swenson, president of the National Farmers Union. I appreciate the opportunity to be here today to discuss the 1990 farm bill.

Since its beginnings in 1902, the Farmers Union has stood for an agricultural policy that supports the goals of assuring producers a reasonable livelihood by providing price and income protection on a family farm level of production, while providing consumers with a stable, nutritious, and affordable food supply. The commodity programs that we've supported since the 1930's have aimed for those goals with varying degrees of success.

In 1990, we continue to stand for what we call "sustainability", whether we're discussing family farm profitability and commodity programs, the best stewardship of our soil and water resources, or the strength of our rural communities. The single best thing we can do to encourage good resource stewardship practices is to give farmers the realistic hope of passing a profitable farm operation down to the next generation, and giving that next generation a reason to stay in Rural America.

Like many Members of Congress, Farmers Union has been working since the passage of the Food Security Act of 1985 on recommendations for the next opportunity to address long-term farm and food policy. Today, I would like to highlight some of our recommendations for the 1990 farm bill, and pledge our cooperation to the Members of this Committee in working out the details of this complex and comprehensive piece of legislation.

Two weeks ago today, the National Farmers Union was winding down its 88th annual convention in Oklahoma City. I would like to take this opportunity to thank Senator Daschle, and this Committee's outstanding staff directors, Chuck Riemenschneider and Chuck Connor, for their efforts in helping to make our meeting a success. I'm not saying it was successful just because I was unanimously re-elected to a second term as president. I feel the convention was a success because the policy goals we had expressed for the 1990 farm bill were reaffirmed by our elected delegates, and because many of the specific program recommendations we offered you last September during our legislative fly-in were formalized on the convention floor as special orders of business. In other words, the elected representatives of our nearly 300,000 members made it clear to the officers and directors that they strongly support where we're going. For the sake of the hearing record, I have attached those special orders of business to my testimony.

Another reason why I feel our convention was a success was that Secretary Yeutter personally flew to Oklahoma City to deliver a list of twenty-five points in which he believed the National Farmers Union and USDA were in agreement. Frankly, we were impressed several months earlier, when Undersecretary Richard Crowder, Deputy Secretary John Campbell, and Assistant

Secretary Bruce Gardner invited us to sit down and discuss our proposals. But for the Department to adopt so many aspects of our proposals into its own farm bill recommendations is little short of amazing. Of course, there are several significant areas in which the Farmers Union and the Department of Agriculture part company, but we believe that the atmosphere for reaching consensus on the 1990 farm bill is much more positive than was the case in 1985.

The first, and perhaps most controversial, subject I would like to discuss is dairy. National Farmers Union recommends several changes in regard to policies on dairy and livestock products. We have recommendations on the price support program, milk marketing orders, and concentration in the livestock industry.

Earlier this month, the delegates to our convention reaffirmed our policy on the dairy price support program:

> "Farmers Union supports the concept of a long-term inventory management program for dairy. We support implementation of either a voluntary or mandatory inventory management program to prevent CCC stocks from becoming excessive. We recommend that base allocations be targeted to family farms with returns that ensure cost of production, plus a reasonable profit, with the goal of attaining 100 percent of parity."

The National Farmers Union's Dairy Council, consisting of 11 farmers from 10 different states, worked for over a year to arrive at a more specific consensus position to implement our policy statement. The Council agreed to pursue a two-tiered approach, and this option was approved by the board of directors. I recognize that the term "two-tiered" means different things to different people, so I would like to outline the basic points of our proposal.

We believe that the program should go into effect right away, rather than serve as a standby to something else, including current law. We will not support another buyout or any other plan that begins by putting farmers out of business, nor can we endorse a plan that continues the current system of trying to control supplies with price cuts. Administration of the 1985 Act brought several dollars in support price cuts yet, if anything, it has led to supply volatility more than supply control.

It has also added to hard times already being faced by many dairy farmers. By USDA's own statistics, the average cost of production in the U.S. went from $11.78 per hundredweight in 1987 to $13.14 in 1988. The average returns to management and risk went $1.91 per hundredweight to $.34 in the same period. Clearly, dairy farmers took an enormous hit during the 1988 drought. While market prices rose by last Fall to reflect these

increased costs, the last few months have brought us tumbling market prices and a needless $.50 per hundredweight cut in the support price.

For the sake of supply stability and the health of rural communities, the new farm bill should include a substantially increased dairy support price. Obviously, to avoid skyrocketing surpluses, a higher support price should be coupled with a program to keep our inventories of dairy products at manageable levels. Our proposal is to set a support price of 75% of parity for a base level of marketing, and authorize assessments on production beyond the base level essentially to pay removal costs. This would take the burden of paying for unneeded milk off the backs of taxpayers, and place it on those most responsible for creating oversupply problems.

In establishing marketing bases, we would rely on recent production patterns of individual producers. While that procedure would not reverse the consolidation and shifts in production areas that have taken place over the last few years, we believe that it would slow the trend of decreasing farm numbers. It would also be easier and cheaper to administer a program that starts with present realities. When demand warrants expansion, we would support giving first priority for additional base to beginning farmers and to those who can demonstrate sound nutrient management planning.

The Farmers Union's proposal would require the Secretary to set annual production goals that meet national demand, including commodity distribution programs and other commitments. The current program has been run in a haphazard "lock the barn door after the horse is gone" manner that has pitted dairy farmers against low-income citizens. After commodity distribution programs have been told that there is no more surplus cheese to distribute, dairy farmers are told that butter surpluses are too high so their price is being cut. The message to dairy farmers is that their industry is too lucrative; the message to low-income citizens is that their needs aren't important. Surely, we can plan a program better than this. We support Representative Boehlert's bill, H.R. 2228, which excludes concessional sales and commitments for low-income distribution from consideration as surplus commodities.

Farmers Union strongly urges your consideration of issues surrounding the commercial introduction of bovine growth hormone, or BGH. There are several important public policy questions that ought to be explored -- independent of any factual battles among bio-chemists over the impact of one amino acid difference between natural and synthetic BGH and before BGH is on the market. The public policy debate there -- whether or not consumers deserve safe food -- has been settled for years. To concentrate on highly technical factual questions in an area where few of us are experts is to concentrate on one branch of one tree, while the rest of the forest is burning.

Almost sixty years ago, public policy called for the government to bear nearly the sole burden for maintaining a balance in dairy product supplies by purchasing excess production in flush periods and reselling it in short periods. Has technology brought us to the point that the industry itself can play a greater role in balancing the marketplace and, if so, should it? As a taxpayer, I am very concerned by the prospect of a major increase in the milk supply when our current dairy program involves taxpayers purchasing unlimited surplus dairy products. What will BGH do to the cost of the dairy program at a time when we're trying to cut the deficit? Again, one of the advantages of the two-tiered program we've proposed in dairy is that it does shift more of the cost burden for excess production -- that is, production beyond what is estimated to be necessary for commercial, export, and food assistance program use -- to those most responsible for creating it.

There is also a public policy question on the structure of agriculture that should not be ignored. As a former dairy farmer, I am very concerned that when taxpayers are expected to purchase at least 5 billion pounds of products, milk equivalent, current law authorizes a support price cut. USDA has proposed even more price-cutting authority, and some have predicted that the support price could drop down to the $7.00 per cwt. range if BGH comes on the market and USDA's proposal becomes law. BGH in and of itself is not really size-sensitive, but cuts in the support price that may be caused by BGH do affect smaller operators in traditional production areas very hard. So far, ignoring structural questions in public policy has given us unprecedented levels of concentration in poultry, pork, and beef production and processing. Continuing to ignore it will give us the same results in dairy and other commodities. We cannot bury our heads in the sand and hope "the market" will take care of everything, because soon there will be no market unless a producer is under contract with one of these companies. Given that the Patent and Trademark Office has decided that animals may be patented, we believe the time has come to seriously address who we want to have producing our food and fiber commodities, and whether, as a matter of public policy, it's best to keep those industries in as many hands as possible.

Having said all of that, I'd like to return briefly to the safety questions surrounding BGH, and particularly the activities of the FDA, which is charged with implementing our public policy supporting safe food. If we were discussing approval of a human drug, for example the technology used to reproduce human insulin, and the developing company had reached the point in the FDA approval process that it had to test the product on humans, there is no doubt in my mind that the people in the test would know that they were in a test group. In fact, there would probably be signed releases and other protections from liability.

BGH is admittedly an animal drug, yet it is to be used in producing food for human consumption. Why are the rules so

different? The FDA approval process apparently does not even call for notice to people who might be consuming milk from test herds, much less their informed consent. State-level attempts to seek labeling of products produced with the milk of BGH test herds, which would allow consumers to consent or not in the grocery store, have resulted in individuals in those states receiving labels of their own, such as "anti-technology" and "Luddite".

It is time for BGH to receive national attention, not so that Members of Congress can join in the fray on whether one amino acid makes a difference, or whether test herds have been of a sufficient size to provide verifiable data, but rather to provide necessary oversight over FDA and to deliberate the larger questions of public policy.

In all commodity programs, much has been said and written over the last five years about whether or not the Food Security Act of 1985 was working, or whether USDA was administering the Act according to Congressional intent. That debate became irrelevant on January 29, when the Administration issued its fiscal year 1991 budget proposal calling for farm program spending in the range of $10.2 billion. It is now clear that simply extending the Food Security Act and expecting it to work in the future is financially impossible.

The goals of the Food Security Act were to reduce stocks, rebuild export markets, and maintain producer income through deficiency payments. The commodity programs authorized in 1985 cannot be operated with outlays of $10.2 billion unless one or more of those goals are sacrificed. The budget calls for taking $1.5 billion out of Commodity Credit Corporation (CCC) farm price and income support programs while funding for Export Credit Guarantees is maintained and funding for the Export Enhancement Program (EEP) is increased $334 million. The budget announcement that yielded the $10.2 billion figure stated an assumption that target prices would be frozen at 1990 levels. According to the Food and Agriculture Policy Research Institute, that would result in a 40% drop in overall net farm income by 1996. Even though USDA's farm bill plan is silent on the issue of target prices, it is clear to us which goal of the Food Security Act is expendable to the Administration.

USDA has been saying that overall net farm income is at record high levels. We urge you to look deeper than the average of all regions and all commodities. In fact, much of the net farm income gains are in commodities outside the scope of farm programs, such as fruits, vegetables, and livestock. What has happened to the net farm income of program commodity producers?

Of course, net farm income is more than a matter of the government program. It's a combination of that plus market price, volume, and the management skills of the producer. The proposed cuts in CCC programs would be much easier for us to

accept if the 1985 Act had more successfully affected some of the other variables. For example, after two years of disastrous weather and several years of aggressive export marketing, wheat surpluses are gone, yet market prices have not responded. What little gain we did see in the marketplace was gone almost the minute that Secretary Yeutter announced his plan to allow producers to plant 105% of their wheat base.

Farmers Union's proposal for the 1990 farm bill begins with target prices that reflect the cost of production and are indexed to inflation. This concept was introduced on February 7 as H.R. 3989 by Representatives Jontz, Dorgan, Evans, Johnson, Nagle, and Stallings. Senator Boschwitz has introduced a similar indexing approach to target prices, in that he would require target prices to increase with set-aside levels.

To keep budget outlays down without sacrificing farm income, Farmers Union also advocates setting loan rates for all applicable commodities at 75% of target prices. In addition, we support repeal of the so-called "Findley amendment" that has resulted in loan rates being artificially forced down below the levels established by Congress in the 1985 Act. Lowering loan rates alone in 1985 did not improve our export situation -- we still needed EEP to recover volume and two years of bad weather to recover value. We do not believe that raising loan rates alone will cause disaster for the one-quarter of agriculture's cash receipts that comes from exports. On the contrary, we believe that low prices are the problem, not the solution. In the specific areas of cotton and rice, we believe that the current marketing loan concept should be continued.

USDA recommends tying loans levels for all program crops, including upland cotton, ELS cotton, and rice, to a moving average of 75 - 85% of the market price. Given what has been happening to market prices even in this time of tight supplies, it appears to us that USDA's proposal will result in lower loan rates. If the OMB assumption of frozen target prices holds true, then the USDA plan would actually increase budget exposure for farm programs.

The Secretary should be required to establish national goals for production of program commodities, based on domestic use, export needs, and necessary reserves. Producers choosing to participate in the commodity program should receive a planting base that reflects historical production, but is expressed in units of production rather than acres. Demand is expressed in bushels and pounds, we're simply suggesting that supply should be expressed in the same terms. This would have the added advantage of reducing cost problems associated with having bases in acres while payments are in units of production. USDA has frequently underestimated program costs. Consistent use of bushels would allow much more certainty that we will stay within our budgetary limits. Use of bushel and pound bases should be accompanied by the opportunity for a producer to prove his actual yields on the

commodities he has traditionally produced.

Farmers Union objects to the concept of an artificial "payment base" for budgetary or any other reasons. Payments should be tied to the actual amount of the actual commodity produced. Our organization strongly supported H.R. 2042, which was enacted late in the last session. That law required a study by the USDA to determine the cost implications of moving to proven yields in 1989, and it requires the Secretary to allow a producer to prove his yields beginning with 1990. As we understand it, USDA is planning to charge producers $15.00 for recording their actual yield data. This is an unnecessary tax imposed to discourage farmers from taking the opportunity to update USDA's information on their yields, and we would ask for your help in stopping this practice.

Obviously, the momentum behind payment bases is largely budgetary. Farmers Union believes that in these times of budget constraints, it makes more sense to target program benefits to the people that taxpayers really wish to support. But in examining the targeting issue, we will have to balance budgetary pressures to eliminate some producers from direct payments with the supply management goals of farm programs that seem to call for as much program participation as possible -- particularly among the very higher-volume producers most likely to lose benefits. We believe that if targeting is done, it must be a gradual phase-down of support payments that will give producers some incentive to stay in the program, as opposed to drawing a line and pulling the rug out from under everyone who crosses it.

There are any number of ways to "target" program benefits for cost-savings, ranging from payment limitations on all participants to limitations on or exclusions from program participation for producers above a certain size or income. The Office of Management and Budget (OMB) has suggested that one way to achieve some of the $1.5 billion in commodity program savings recommended in the Administration's proposed budget would be to exclude larger producers from eligibility for program benefits. USDA, on the other hand, appears to have rejected that approach in favor of decreasing deficiency payments to all producers through a combination of planting flexibility in exchange for payment base and including Findley payments in the $250,000 total payment limitation.

We do not believe that targeting can be done on the basis of gross sales or adjusted gross income from farming without causing either inequities among commodities and regions of the country or else an incredibly complicated program. It also would be difficult to design such a targeting mechanism in a way that can distinguish between a large farm from which several full-time farm families are trying to make a living, and a large farm which is reorganized on paper simply to qualify for more payments.

If targeting is to be done as a means test, we would prefer to see criteria using income levels outside of agriculture. We would gradually redirect program benefits toward those who rely on agriculture for a living and phase down income supports of those who do not. For example, if an individual's adjusted gross income from sources other than production agriculture exceeds $250,000 per year, it's probably safe to assume that the average taxpayer would not see as great a need to provide farm income support to that person as the case of a farm couple where one spouse works in town to help pay family living expenses and has an annual adjusted gross income of $35,000. In any case, there would need to be some flexibility in administration of a targeting effort, to allow ASCS to resolve complex arrangements in an equitable manner.

National Farmers Union's informal membership survey shows that farmers also want some greater flexibility in deciding what to plant on their farms. Such flexibility could have both market and environmental benefits, but it should be limited to program crops (and unharvested soil-restoring cover crops) to avoid adversely affecting non-program crop producers. I hasten to add that we also propose creating a stabilization program for oilseeds similar to existing programs for feedgrains. We are concerned about the budgetary exposure involved in a marketing loan for soybeans -- both here and in heavily indebted nations in the third world. We would also continue whatever production adjustments may be necessary on an individual commodity basis.

We would take an additional step of placing reasonable limits on the degree to which producers can trade among crops to recognize the fact that many regions are limited in how many different crops they can produce. For example, wheat farmers in Oklahoma are not likely to shift to corn, but corn farmers in Iowa may be very interested in shifting to wheat. We believe some balance must be included in flexibility, to maintain historical production patterns while allowing for soil restoring crop rotations and meeting market demand. USDA would have us flexibly produce more wheat -- even on set-aside acres -- simultaneously driving down market prices and giving up income protection. Our delegates voted to support a ceiling of 25% switch out of traditionally-produced crops.

Under the Farmers Union proposal, producers who exceed their base would have the option of storing the excess commodity at their own expense as a tangible form of crop insurance or using it toward the next year's marketings. Under USDA's proposal, those producers could go ahead and market the commodity as long as they gave up a corresponding amount of deficiency payments.

Another area where Farmers Union and USDA agree is that farmers should not be able to jump in and out of the program in order to build base. USDA would not allow the building of base while outside of the program. We would go one step further, and require anyone who drops out of the program to stay out for a

minimum of two years, and give up ten percent of his base for each year he stays out of the program.

We feel it is time to emphasize that food and feed reserves are not the equivalent of price-depressing surpluses. We also feel that it is time for all exporting countries to face up to their responsibility in the maintenance of world food reserves. The United States can no longer afford to bear the lion's share of reserves against global food shortage.

We agree with USDA that the Food Security Wheat Reserve should have its replenishment authority extended, and that control of the Farmer-Owned Reserve should lie with producers to the greatest extent possible. The farmer-owned reserve should be used to prevent shortages, not to depress prices. Unless a farmer is storing a commodity for his own use, on-farm storage is the same service to the public as commercial storage, and it should be paid by the same rates. We were very pleased that Senator Boschwitz has indicated his intention to introduce a bill requiring commercial payment rates.

We are concerned, though, by USDA's apparent belief that flexible planting options would lessen the need for reserve stocks. It may be true that in cases of localized disaster a drop in supply from one area of the country could be partially offset by additional plantings somewhere else. But, in cases of widespread natural disaster, such as the country saw in 1988, flexibility will not help much.

NFU strongly agrees with USDA's proposal for a multi-year set-aside program that would enable farmers to idle portions of their land long enough to establish a soil-restoring cover crop. Those acres should then be eligible for use as a forage reserve in times of natural disaster to avoid much of the pressure for haying and grazing the highly erodible land in the CRP. We support Senator Pryor's proposal to implement this idea.

We also support the Department's proposal to test all grain exports for aflatoxin levels. Ensuring grain quality in general -- from aflatoxin to the addition of foreign materials -- is of critical importance to maintaining foreign customers. The volume of our exports has increased, but only after large expenditures on EEP to lower the effective price of our commodities even further. At the same time, our competitors have not substantially reduced their plantings, their export subsidies, or their undercutting of U.S. prices. While EEP has been effective in moving wheat and could be used in other commodities, such as corn, there must be a renewed emphasis on being a reliable supplier of good quality products.

Our approach on international issues really follows four separate, though related, tracks. First, we must negotiate with debtor nations in the third world to reduce their debt in exchange for economic reforms that will improve their people's

standard of living. The only way to build new markets for American food and fiber products is to attack poverty on a worldwide basis.

Second, we are working on improving macro-economic conditions in this country that will provide the environment in which the new farm bill must work. For example, we will continue to be active in efforts to reduce the budget deficit. This year, the budget reconciliation process is on a nearly identical time schedule to the farm bill, since the Gramm-Rudman deadline is June 15. We will also continue to work on issues such as interest rates and the balance of trade in other products, such as energy.

Third, within the 1990 farm bill, we advocate:

a. the appropriate use of EEP and other tools created in 1985 to counter unfair trading practices of other nations;

b. negotiated rules on the broad sharing of the cost of maintaining of world grain and food reserves and their use as needed; and

c. reauthorization of an improved P.L. 480, with renewed emphasis on using the law for economic development purposes rather than as a foreign policy tool.

Finally, it's time for the rhetorical dialogue on free trade that has been coming out of the Uruguay Round of the General Agreement on Tariffs and Trade, or GATT, negotiations for the last three years, to give way to real progress on fair terms of trade.

The simple fact is that there are many commodities, such as sugar and cotton, for which the U.S. is not the lowest cost producer. In a totally free market, we would eventually lose those industries. Agriculture is different from computers. If a factory stops producing item A, it can be retooled to produce item B. That doesn't necessarily work with farmland. Totally free trade in agriculture, even if it were achievable, would cause irreparable economic and social damage in many areas of Rural America. Deliberately putting ourselves in that situation would be shooting ourselves in the foot, if not amputating the entire leg. We support the current sugar program, and we also support the continuation of Section 22.

Secretary Yeutter has assured Members of Congress that the GATT process is independent of the process of writing the 1990 farm bill. But, the Department's decision not to include sugar in its 1990 farm bill outline seems to us to be a clear signal that they see the farm bill as being very much influenced by the GATT negotiations.

As the Uruguay Round enters its final stages, we believe that additional information is clearly in order on exactly where the negotiations are going for American agriculture. We ask for your help in urging the Office of the U.S. Trade Representative to hold public hearings around the country, in places accessible to rural citizens, to explain the impact of the U.S. proposals and to gather public input.

Given that the goals of agricultural negotiators in GATT are to increase trade in agricultural commodities and to harmonize health and safety standards, we believe it is more important than ever to have a strong FDA and country of origin labeling on food products. Farmers Union is very concerned about a report issued by the House Energy and Commerce Committee last summer, which stated that FDA only physically inspected two percent of the over one million food product imports into the U.S. in 1987, and that forty percent of the inspected products were rejected. Worse yet, twelve and one-half percent of the rejected products reached American consumers anyway, due to the inability of FDA and the Customs Service to destroy the products or send them back to the country of origin. American consumers deserve more assurance of compliance with our safety standards than that.

American consumers also deserve to know that their interests are being represented in the types of research that the public is funding. For example, concern over environmental and food safety issues both cause us to call for additional research into safer pesticides and non-chemical alternatives for crop protection. This is particularly appropriate in the case of minor use crops, since much of the privately-funded research in these areas is concentrating on other crops, such as cotton, for which there is a large enough potential market to attract investors. Another example of Farmers Union-backed research opportunities is in finding new uses for agricultural products, such as soybean-based inks or corn-based plastics that can increase marketing opportunities at home or decrease dependence on foreign oil.

Along with concerns of food safety, the 1990 farm bill must devote considerable attention to environmental issues. The Food Security Act of 1985 made a good start in the area of soil conservation. Farmers Union supports continuing the goal of reducing soil losses to tolerable levels.

While title XII of the 1985 Act represented a giant step in our thinking on the responsibilities that should accompany the rights involved in farm program participation, it is time to move beyond a separate title tucked in the back of a bill toward making commodity income support programs more compatible with our environmental goals, both for soil and water. Farmers Union supports the appropriate and responsible use of <u>all</u> of a farm's available resources -- including soil, water, chemical and organic fertilizers, pesticides, capital, machinery, animals, people, credit, etc. It is the combination of all of these factors that makes an operation "sustainable" -- in other words,

able to be continued over the long-term. As I mentioned earlier, we see sustainability as a three-pronged concept involving profitability for family farms, protection of natural resources, and a commitment to healthy rural communities.

One lesson of the 1985 farm bill's low prices is that many farmers were forced to pass on to the environment the production costs that they could not recover from the marketplace -- hence soil erosion and fertility problems due to continuous mono-cropping, nitrate run-off from continuous spreading instead of storing manure, and other environmental problems that aren't counted for some reason when people describe an "efficient" farmer. Clean drinking water is important, but it becomes less important if there are no people left in the community to get thirsty. Agriculture may not be the only industry supporting most rural areas, but genuine rural development must begin by restoring profitability to agriculture.

In other words, the problem is bigger than chemical inputs, and the solution is bigger than a small low-input research budget. There clearly is a public role in the development of safer alternatives. The private sector sees little in the way of economic incentives to develop pesticides that would, for example, use fewer applications or replace minor use pesticides pulled from the market by the registrant for economic reasons. Nor is there much incentive to develop non-chemical alternatives, such as crop rotations that can break pest cycles. Even genetic research seems to be aimed more at developing pesticide-resistant plants, such as atrazine-resistant soybeans, than developing pest-resistant plants.

We support expansion of Conservation Reserve Program (CRP) eligibility to accommodate other types of environmental problems, coupled with the use of voluntary long-term easements where more appropriate, such as in wetlands restoration. CRP was never intended to be a permanent solution for highly erodible land, and its value for problems such as water quality may be somewhat limited, but it would give producers an option of taking land out of production while still enabling them to pay their mortgages and taxes. It would allow us to buy time (literally) for research to provide more sustainable management practices.

We support providing farmers with incentives to experiment on their own with more sustainable practices through a transition period of base and yield protection. Since farmers base their decisions on all of the information available to them, we also support a substantially larger role for the Extension Service and the Soil Conservation Service in providing information to producers and working with them to implement appropriate management practices.

We support voluntary well-testing programs with cost-sharing to complement activities already underway in several states to build a national database on water quality concerns.

We support additional cooperation among federal and state agencies, and agencies within USDA to promote environmental goals. For example, the Farmers Home Administration (FmHA) should not lend money for the purpose of draining wetlands. Lending criteria should not insist on the use of so-called "conventional" management practices. Similarly, the Federal Crop Insurance Corporation, whose continued existence we strongly support, should be prepared to meet the needs of producers using less intensive production methods.

In the area of crop risk protection, National Farmers Union's farm bill proposal calls for replacing the patchwork of ad hoc disaster programs that have been used in recent years with a permanent catastrophic disaster program. However, we also support a strengthened crop insurance program for use by farmers as a day-to-day risk management tool. Crop insurance was not designed to handle crises of the magnitude we saw in 1988 any more than ordinary health care coverage is designed to accommodate a catastrophic illness. But crop insurance is an essential business tool for farmers and, very simply, if they can get the coverage they need for a reasonable price, then farmers will buy the product.

We would recommend establishing a permanent catastrophic loss pool within the Federal Crop Insurance Corporation, to be funded the same as the 1988 and 1989 disaster relief legislation. Reduced outlays for deficiency payments, achieved by weather-induced increases in market prices, should be set aside for catastrophic crop insurance payments. I would stress that these payments should go only to those producers who purchased available crop insurance. This could supplement regular crop insurance without increasing overall budget exposure.

To improve coverage levels, we would require that one of the available price elections be set at the cost of production. When producers can get back at least what they spent putting a crop in the ground, crop insurance will be more attractive. We would also require that one of the yield options be set high enough that producers in low risk areas would have a chance of recovering for something less than a complete wipe-out. Third, we would apply the thirty-percent premium subsidy consistently so that higher coverage levels are more affordable. Finally, we would streamline FCIC activities with those of ASCS to allow a producer to certify acreage, planting intentions, conservation compliance, etc. one time to satisfy FCIC, ASCS, SCS, and FmHA.

For the credit title of the farm bill, National Farmers Union has been raising concerns with the direction that FmHA lending has been going for the last decade and, over the last few months, we have had little reason for reassurance.

First, and perhaps most importantly, we are concerned about the impact of the Congressional mandate to increase guaranteed lending at the expense of the direct lending programs. Our

belief that guaranteed lending was not truly acting as a substitute for direct lending -- not reaching the same types of borrowers or meeting the same types of credit needs -- was substantiated by last September's GAO report.

The GAO found that:

a. private lenders have used the guarantees to limit their risk on their existing loans, rather than to make new loans to FmHA-eligible borrowers;

b. few direct FmHA borrowers have been graduated to guaranteed loans, probably because of a substantial difference in interest rates;

c. although guaranteed loans help high-risk borrowers obtain private credit, such borrowers have higher cost of money, stricter loan terms, and a greater likelihood of liquidation because of private lender policies;

d. although the shift to guaranteed loans has reduced outlays for direct lending, the reduction has not been proportional and the government's overall financial exposure has actually increased; and

e. since 1984, losses from guaranteed loan programs have increased faster than the volume of guaranteed lending, a trend which GAO attributes to FmHA's inadequate assessment of borrowers' financial condition prior to loan guarantee approval and insufficient oversight of approved loan guarantees.

The Food Security Act of 1985 supported the shift from direct farm loans to loan guarantees by rearranging funding authorizations. As a result, from 1985 to 1989, direct lending plummeted by over 60,000 new loans from 83,929 down to 22,681. At the same time, guaranteed loans increased by only about 1,800, from 10,146 to 11,942. While demand for agricultural credit has dropped generally, we don't believe that it's dropped to the point that FmHA can make 60,000 fewer direct loans, guarantee 1,800 more private loans, and still claim that the job is being done. There is a serious question of unmet credit demand that should not be foisted off on the shoulders of the Farm Credit System.

The Administration's budget and farm bill proposals call for even more emphasis on guaranteed lending in 1990 and 1991. We believe that it is time for Congress to correct the misdirection of the Food Security Act of 1985, and restore a proper balance of funding between direct and guaranteed loan programs.

The farm bill should also ensure that FmHA has the resources necessary to have sufficient staff to perform important supervisory tasks. Lower interest rates have helped many thousands of successful farmers get started, but what has kept them in operation has been the financial management skills they

learned from working with their FmHA county supervisor. The current under-staffing problem will only get worse if FmHA is given additional responsibilities in a major rural development package.

USDA's farm bill proposal also calls for several changes in FmHA operation that we believe are not in the best interests of farmers or taxpayers.

First, the proposal recommends maximum use of private lenders' forms, standards, practices, and terminology. While the goal of FmHA's direct lending should be to prepare borrowers for graduation to the private sector, by definition, FmHA-eligible borrowers cannot meet private lending standards. FmHA was never intended to be a clone of a private bank, and we are concerned that over-reliance on private lending procedures could result in an even greater problem of unmet demand for credit.

Second, the proposal calls for a 20% downpayment in guaranteed FO loans, and 20% equity in guaranteed OL loans. These excessive requirements would bring us one step closer to the old adage that the only people who can get help are the ones who can prove they don't need it. FmHA was designed to be the lender of last resort, and this proposal seems to turn the agency's back on its traditional constituency.

Third, the proposal calls for limiting borrowers to one debt write-down opportunity, and applying write-down authority only to those loans closed on the date of enactment of the Agricultural Credit Act of 1987. Much of the existing totals of delinquent loans can be attributed to interest on interest caused by FmHA's own failure to resolve problem loans in a timely manner consistent with law and regulations. It would be most unfortunate if a few isolated incidents of abuse resulted in tying the hands of the agency in the use of legitimate debt restructuring tools that, according to the Agricultural Credit Act of 1987, are only to be used when doing so would result in the greatest return to the government.

FmHA regulations require several attempts at other types of restructuring, such as rescheduling or reamortization, prior to the 180th day of delinquency, at which point write-down would be available. By the time a borrower could reach eligibility for debt write-down a second time, it would truly be a last resort and not a revolving door.

Fourth the proposal recommends increasing shared appreciation periods to ten years for cases of net recovery buyout, to be consistent with the Act's ten-year provision on purchases of inventory property under the right of first refusal. We believe that the point of a shared appreciation arrangement is to keep a borrower whose loan obligations have been reduced from making a windfall profit at the taxpayers' expense. While the idea is a

fair one, we could not support extending it out for ten years unless recapture under both net recovery buyout and purchase out of inventory were limited to cases in which the borrower actually receives a gain -- in other words, where there was actually a sale or transfer of the property.

It is not fair to reappraise the property after ten years and add onto the borrower's debt if the borrower has no intention of selling the land. After that long, the borrower has demonstrated that his operation is, in fact, a sustainable one. This type of borrower is precisely the person that we want in Rural America; it would be most unfortunate if FmHA were to come along and knock that producer back into financial distress in order to gain its share of unrealized paper appreciation.

Mr. Chairman, I believe that 1990 presents us with a unique opportunity to address questions of sustainability on the three levels I've outlined today. I look forward to continuing to work with you and other Members of the Committee throughout the process of drafting the farm bill, and I would be happy to answer any questions you might have.

SPECIAL ORDER OF BUSINESS
Adopted by Delegates to
the 88th Annual Convention
National Farmers Union
Oklahoma City, Oklahoma

March 4 - 7, 1990

THE PROVISIONS OF THE 1990 FARM BILL AFFECTING COTTON

Whereas, cotton is a very important agriculture commodity and National Farmers Union supports the continuation of the marketing loan concept with certain modifications; and

Whereas, the budget limitation imposed on the agricultural sector to comply with the guidelines of the Gramm-Rudman budget agreement mandate cost savings be achieved in all areas of the 1990 farm bill;

We recommend that:

1. Cotton program costs be contained by raising the loan rate for cotton to the target price level;

2. Cotton loans retain the 8 month extension;

3. The voluntary cotton promotion checkoff should be continued.

SPECIAL ORDER OF BUSINESS
Adopted by Delegates to
the 88th Annual Convention
National Farmers Union
Oklahoma City, Oklahoma

March 4 - 7, 1990

THE PROVISIONS OF THE 1990 FARM BILL AFFECTING RICE

Whereas, rice is a very important agriculture commodity and National Farmers Union supports the continuation of the marketing loan concept with certain modifications; and

Whereas, the budget limitation imposed on the agricultural sector to comply with the guidelines of the Gramm-Rudman budget agreement mandate cost savings be achieved in all areas of the 1990 farm bill;

We recommend that:

1. Rice program costs be contained by raising the loan rate for rice to the target price level;

2. Rice loans be extended if market condition warrant extension;

3. The farm bill not extend the "Findley" provision currently in effect for wheat and feedgrains loan rates to rice.

SPECIAL ORDER OF BUSINESS
Adopted by Delegates to
the 88th Annual Convention
National Farmers Union
Oklahoma City, Oklahoma

March 4 - 7, 1990

U.S. SUGAR POLICY AND THE 1990 FARM BILL

Whereas the current U.S. sugar program has successfully provided consumers with stable, reliable supplies of sugar at reasonable prices even when domestic production was reduced due to weather related problems.

Whereas the U.S. sugar program has successfully provided sugar producers with decent incomes.

Whereas the U.S. sugar program has successfully provided good jobs and employment opportunities in the communities where the sugar industry exists, many of which are rural areas where there are fewer employment alternatives.

Whereas the U.S. sugar program has successfully operated at no net cost to the government.

Therefore let it be resolved that given the success of the current program, Congress should make only careful, minor changes, if any, in the current program when it considers the 1990 farm bill. Any sugar program developed by Congress should contain the following points:

-- it should not allow the GATT to jeopardize in any way the major elements of the current U.S. sugar program;

-- it should maintain a quota system, within the U.S. sugar program, that will avoid forfeitures of domestic sugar to the U.S. government and also provide acceptable levels of minimum import access to the U.S. market from traditional foreign suppliers;

-- it should maintain at least current sugar price support levels and provide for escalators to reflect increases in production costs;

-- and it should be sensitive to trade issues regarding sweetener blends, especially the illegal circumvention of import restrictions by blended products.

SPECIAL ORDER OF BUSINESS
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National Farmers Union
Oklahoma City, Oklahoma

March 4 - 7, 1990

FEDERAL CROP INSURANCE PROGRAM

Whereas National Farmers Union supports the Federal crop insurance program; and

Whereas crop insurance is a necessary risk management tool in many family farm operations; and

Wheras thousands of family farmers will experience instant loss of credit without crop insurance; and

Whereas farmers in some parts of the country are facing drought conditions for the third year in a row; and

Whereas government support is necessary for the continued availability of crop insurance; and

Whereas Members of Congress are currently assessing options for the improvement of crop insurance; and

Whereas, the Administration has eliminated funding for crop insurance in the proposed federal budget and intends to move F.C.I.C. into a "shut down" mode in the near future;

We recommend that all members of the National Farmers Union urge their Members of Congress and the President to continue and improve the Federal crop insurance program.

SPECIAL ORDER OF BUSINESS
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March 4 - 7, 1990

SUPPLEMENTAL GREEN THUMB FUNDING

Whereas, the Green Thumb program, which is sponsored by the National Farmers Union, is funded through the Senior Community Service Employment Program (SCSEP); and

Whereas, SCSEP funds provide employment for 64,798 citizens, including Green Thumb workers aged 55 and older; and

Whereas, Green Thumb workers are affected by a recent increase in the minimum wage; and

Whereas, the failure to allocate supplemental funding would result in the termination of thousands of jobs;

We recommend that the members of the National Farmers Union call on Congress and the Administration to provide supplemental funding to SCSEP to enable Green Thumb and other SCSEP-funded programs to maintain their current worker enrollment levels.

SPECIAL ORDER OF BUSINESS
Adopted by Delegates to
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March 4 - 7, 1990

DAIRY POLICY

Whereas, American dairy farmers have shown the ability to produce a more than ample supply of wholesome and nutritious dairy products, and

Whereas, that ability to overproduce has caused a decline of several dollars per hundredweight in the federal support price over the life of the Food Security Act of 1985, and

Whereas, USDA has proposed additional cuts that could lead to a support price of $7.10 per hundredweight by 1995, particularly in the advent of new technologies, and

Whereas, food assistance programs were told that there was no longer any surplus cheese or non-fat dry milk available for low income citizens even as dairy farmers faced support price cuts from surpluses in butter, and

Whereas, National Farmers Union has traditionally stood for parity prices for farmers and a stable, affordable, nutritious supply of food for consumers,

We recommend that the federal dairy program be restructured into a two-tiered program in which the first, or base, tier represents the necessary production levels to meet commercial, export, food assistance, and strategic reserve goals, supported at 75% of parity.

We further recommend that the second, or surplus, tier be priced in a manner to assess the costs of removing the product from the marketplace against those producers responsible for the surplus production.

We further recommend that when production expansion is necessary that allocation of additional base should be targeted toward beginning, minority, and other family farmers.

SPECIAL ORDER OF BUSINESS
Adopted by Delegates to
the 88th Annual Convention
National Farmers Union
Oklahoma City, Oklahoma

March 4 - 7, 1990

Bovine Growth Hormone

Whereas, bovine growth hormone has been show by studies to be harmful to cow health, and

Whereas, there have not been adequate studies performed to ascertain human safety, and

Whereas, our Nation's dairy farmers have proven that they can produce a supply of milk beyond that which the commercial market can absorb without Bovine Growth Hormone, and

Whereas, more than an adequate milk supply can be produced without unnecessary risk to dairy cows, consumers, or the market for dairy products, and

Whereas, the only studies on bovine growth hormone have been done by the drug companies that will produce it and by universities funded by these same drug companies,

Be it resolved, that Farmers Union supports legislation to institute a moratorium on the use of bovine growth hormone for 3 years in the advent it is approved by the FDA, supports independent publicly-funded studies to answer the questions raised about the bovine growth hormone and opposes the use of dairy farmer advertising dollars to promote bovine growth hormone.

Be it further resolved, that this special order of business be delivered to every Member of Congress, requesting their support.

SPECIAL ORDER OF BUSINESS
Adopted by Delegates to
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National Farmers Union
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March 4 - 7, 1990

LEAST COST POLICY

National Farmers Union calls for the continuation of the "least cost policy" for the determination of Farmers Home Administration's loan servicing activities. We oppose the attempt to limit the eligibility of borrowers for this loan servicing activity.

The "least cost policy" was adopted by Congress because the Farm Credit System was willing to foreclose on some borrowers rather than write down the loan -- even if the write-down would be less costly to the Farm Credit System. It was adapted to the FmHA because Congress felt that the agricultural lender that Congress required of the cooperative lending system.

The concept of keeping a producer on the farm if it was the least cost to the government was a financially prudent idea in 1987 and it still is today. We oppose any attempt to amend the Agricultural Credit Act of 1987 to weaken this provision.

SPECIAL ORDER OF BUSINESS
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National Farmers Union
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March 4 - 7, 1990

Clean Air & Agriculture Ethanol

Whereas National Farmers Union is in favor of clean air, we of the National Farmers Union wish to commend Senators Tom Harkin and Tom Daschle for their support of reformulated fuels using ag ethanol and ethyl tertiary buteyl ether (ETBE made from ethanol) to reduce harmful emissions from automobile exhaust.

SPECIAL ORDER OF BUSINESS
Adopted by Delegates to
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March 4 - 7, 1990

CONCENTRATION WITHIN THE SOYBEAN PROCESSING INDUSTRY

We, the members of the National Farmers Union, continue to observe with growing alarm the rate at which the economic resources of our nation are being concentrated in an ever smaller group of economic interests. This reality is repugnant to the concept of free enterprise, to the stability of our economic strength, and to the need to enhance creativity and competition for the world marketplace.

American agriculture is not immune to the trend of tighter market control, we have observed the infrastructure concentration patterns in many of the marketing and processing components so critical to commodity pricing and food product cost.

We are concerned that the significant shifts toward concentration are apparently occurring within the soybean crushing industry. According to the U.S. Census of Manufactures figures the number of soybean crushing firms in 1987 was down to about 13 firms each owning an average of 5.4 plants. This compared with 1963 figures showing about 68 firms each owning an average of 1.5 plants. The result appears to be fewer firms owning more crushing plants each.

According to one industry source, as few as two firms may well control over 50 percent of the soybean crushing capacity. If this is true, we believe it is wrong.

We have also observed within our own communities that elements of the soybean processing industry are also purchasing local elevators which provides them with direct access and greater internal control over the commodity.

Further a review of the USDA statistics concerning the spot price of soybeans, meal and oil seems to support the conclusion that the margin between soybean prices and meal prices are increasing significantly. Specifically, in the period 1980-85 the margin was about 26 cents whereas the spread was about 49 cents for the period 1985-89, nearly double.

Based upon this information, we call upon the Congress of the United States to investigate the apparent growing concentration within the soybean processing industry. We call for a complete examination of whether or not the apparent concentration of the

soybean crushing industry has resulted in lower prices for soybean producers and higher cost for users of soybean products. This examination should also include a review of the total soybean marketing structure, including the transportation system.

Senator KERREY. Thank you, Mr. Swensen.

The next witness is Mr. Eugene Paul, from Delavan, Minnesota, representing the members of the National Farmers Organization.

STATEMENT OF EUGENE F. PAUL, SPECIAL ASSISTANT TO THE PRESIDENT, NATIONAL FARMERS ORGANIZATION, DELAVAN, MN

Mr. PAUL. Thank you, Mr. Chairman.

INTRODUCTION

My name is Eugene Paul. I am a farmer from Delavan, Minnesota, and I represent the National Farmers Organization. Mr. DeVon Woodland, our national president, wanted to be here today, but other commitments made that impossible.

CHANGES NEEDED

I think it is very obvious that if we are going to protect this traditional agricultural base of family farm operators, owners and operators of the land, we are going to have to make some changes in the farm bill. Stronger price support features are going to be necessary, if we are going to avoid another round of bankruptcies such as we experienced in the past few years.

DAIRY

Let me address, first of all, the dairy section. The National Farmers Organization is one of the major handlers of milk in this country. We market milk for our members to over 250 dairy processors in 20 States and we represent our producers in 20 Federal milk marketing orders.

The basis of the dairy section in the Food Security Act of 1985 was to use dairy support price cuts to control production. We oppose price support cuts. This is not acceptable for two reasons. Price support cuts do not really control production. It is more of a budget management program than a supply management program.

And secondly, because of the price instability that it has created, dairy farmers will again experience another $3 per hundredweight drop in the price of milk in the next couple of months. If we are really serious about ensuring the financial stability of dairy producers and controlling government costs, we need to implement the following: number one, an inventory management program whereby each producer is given a franchise to produce a given amount of milk based on projected domestic needs; and secondly, a two-tiered pricing structure. The top price of $14.50 a hundredweight would be mandated to be paid for the base pounds. Production in excess of base pounds would be bought by the Commodity Credit Corporation at a much lower price that would cover only marketing expense such as hauling, government assessments, advertising and processing costs.

This would create a two-tiered price structure, which, number one, would create price stability for the producers with the top price, and the lower price would be a real deterrent to overproduction.

In other dairy areas, we support the Federal milk marketing order system, but we would urge that Congress mandate a study of

that system, of the changes that are needed, and updating that is needed following by hearings to be completed within 18 months of the passage of the farm bill.

WE SUPPORT THE VARIOUS FOOD ASSISTANCE PROGRAMS

We support the various food assistance programs. We believe the Government should buy those needed supplies on the open market much as they purchase for defense and other major government programs. In the 1985 farm bill, the Class I differentials were increased in some of the Federal milk marketing orders and some of the areas. We are opposed to a rollback in any of those Class I differentials, and we would urge rather an increase in those areas which did not receive the advantage in the 1985 bill.

GRAIN PROVISIONS

As far as the grain provisions are concerned, we would like to express our position on some recent proposals. We are flatly opposed to decoupling recourse loans and other ideas designed to convert the price support program to some sort of farmers' relief act. We want to get our money from the marketplace. If we want to borrow money on a recourse loan, we can go to the banks.

It appears necessary to have inventory management and price supports to assure stability in the national economy and the food supply. If we are going to be subjected continuously to lower and lower prices causing additional farm bankruptcies, perhaps it would be best if you would just be up-front about it and terminate the program.

The publicly stated purpose for reducing loan rates, which we have experienced in the past few years, was to regain U.S. competitiveness and market share in the export markets. However, the resulting loan rates, as currently determined, appeared to have little or not relationship to world market prices, nor are they related to producer costs of production or net farm income.

OUR SPECIFIC RECOMMENDATIONS

Our specific recommendations: number one, eliminate the Findley amendment; secondly, since the Secretary must project the expected average world market price and anticipated export volume for the upcoming year, we feel he should publicly state the price needed to compete in the world market and his reasoning for that; third, we recognize that exports are important, but loan rates should be set at a level that recognizes the dollar value of exports and not just the volume; number four, in setting loan rates, we should also recognize the importance of net farm income and the cost of producing grain.

GRAIN RESERVE AND STOCK POLICY

On grain reserves, the original legislation wisely enacted by Congress provided for the management of CCC inventories, the strategic food reserve and farmer owned reserve, and ensured that an adequate reserve policy would protect the public interest. If that had been administered wisely, those reserves also would be suffi-

ciently isolated from the market to prevent major drops in the market during years of overproduction.

Senator KERREY. Mr. Paul, could I ask you to summarize at this point?

Mr. PAUL. Thank you, Mr. Chairman.

It appears that the administration policy is simply that we have no reserve. It is really a free stock policy proposal.

We feel that programs can be developed that can meet the needs of farmers today, but they must include increasing the loan rates so that the grain farmers have enough net income to pay their bills and cash-flow their operations. Thank you, Mr. Chairman.

[The prepared statement of Mr. Paul follows:]

NATIONAL FARMERS ORGANIZATION

Committee on Agriculture,
Nutrition, and Forestry
United States Senate

Testimony of
Eugene F. Paul
Special Assistant to the President
National Farmers Organization
March 21, 1990

1990 FARM LEGISLATION

My name is Eugene Paul, farmer from Delavan, Minnesota, and here to represent our members of the National Farmers Organization. Mr. DeVon R. Woodland, National President and farmer-rancher from Idaho, wanted to appear before you today but other commitments made that impossible. I bring you his best wishes.

We appreciate the opportunity to present the views of our membership and urge you to remember that this legislation will probably have a very serious long-term bearing on the future of farming in the United States. Considering the accumulation of debt and the declining balance of trade experienced recently, we believe you must redesign certain program features.

The traditional agricultural base that supports our basic food supply has been undergoing changes that portend real risk of instability in the future. For example, in a recent study of a large Midwestern State it was found that in 26 of the better farming counties, less than 35 percent of the farmland is operated by the owner. We believe this country is strongest when farmers and small business people own and operate their own properties.

Interest charges and refinancing the huge national debt now utilizes about 20% of our Treasury income. The rosy economic forecasts of the Administration's budget proposal notwithstanding, this interest drag on the Treasury will increase. Continuing reductions in funds available for a farm program are inevitable in view of the apparent reluctance to make meaningful reductions in the military outlays, and the pressing domestic demands arising in other segments of the economy. Stronger price support features will be necessary in the new bill if we are to avoid another wave of bankruptcies and a continuing decline in rural communities in the 1990s.

The total asset value in U.S. agriculture was $1 trillion in 1981. By 1985 these asset values had shrunk to $692 billion, over a 30% drop, the steepest fall since the Great Depression. Today assets are valued at $760 billion, a modest recovery, but still 24% less than they were in 1981. Something must be done in addition to arguing with Europe about exports.

Dairy

The National Farmers Organization is one of the major handlers of milk in this country. We market milk for our members to over 250 dairy processors in 20 States and we represent our producers in 20 Federal Milk Marketing Orders.

The basis of the dairy section in the 1985 Food Security Act was to use dairy support price cuts to control production. This is not acceptable to our membership because of the price instability thus created. Furthermore, price cuts alone do not really control production. In fact, those price reductions were more a matter of budget management than supply management. The fact that support prices are well below market clearing levels has allowed wide milk price fluctuations which have not been good for the dairy producers or the dairy processors. We have seen price fluctuations of over $3.50/cwt during a single twelve month period. In the next two months dairy producers will again experience another $3 or more drop in milk prices which will result in additional family dairy farm liquidations.

We firmly believe that a real inventory management program tied to a two-tiered pricing structure is needed to assure price stability for dairy producers and still control government costs.

It is proposed that a projection be made on a yearly basis of the amount of milk needed to meet domestic needs. Comparing this amount to the base period (previous years' production) would give each dairyman a fixed volume to produce for a known price.

The minimum manufacturing milk price to be received by producers would be $14.50/cwt. This price is in line with the December M&W Series price, which reflected a supply-demand balance. This price would also be the basic formula price for all federal orders and the Class 4A & B price in the California State order. Any production marketed by a producer as excess (that production over domestic base) would be priced only at the cost of actual marketing expense such as hauling, government assessments, advertising and marketing fees.

This would create a two-tiered price structure with the top price high enough to enable a producer to cash flow his operation and with the lower price low enough to be a real deterrent to over-production.

The advantages of our proposal are obvious. First, it will create price stability for producers and processors. Producer income

would come from the marketplace - not from the Treasury. Secondly, it will aid the industry in planning for future needs and lower governmental costs, thereby aiding all consumers.

The 1985 Act also arbitrarily adjusted Class I differentials in some Federal Milk Marketing Orders. This resulted in wider price disparities among various regions. If those increased Class I differentials were good for those areas, it would seem that similar increased prices should have been good for all areas of the country. Therefore, we are not in favor of any rollback of Class I differentials; rather, we would support an increase in those Federal Orders which were disadvantaged by previous legislation.

We support the Federal Milk Marketing Order system; however, as we move into the 1990s and the pressure increases to change and update the system, we feel there should be adequate time allowed to study, request changes, and hold hearings so that all affected parties may offer comments. USDA needs to continue to be responsive to requests for change in the Federal Order system. They must also maintain an adequate staff to write and administer the Federal Order system. Producers should fund that system through marketing order fees. It would be constructive if the Congress would mandate that a study be conducted and then insist that a series of hearings on the broad aspects of the Federal Milk Marketing Order system be held following passage of this farm bill.

We support the various food assistance programs which provide milk and dairy products to school age children and low income families but the dairy products needed and used in those programs should not be regarded as surplus production. We believe the government should buy all such needed supplies on the open market just as it purchases for defense and other major government programs.

Grain Provisions

Before offering our recommendations, let me express a position on some recent proposals. We are flatly and unequivocally opposed to decoupling, recourse loans and similar ideas designed to convert the price support program to some sort of farmers' relief act. We want to get our income from the marketplace. If we want to borrow money on a recourse loan, we can go to the banks.

It appears worthwhile to have inventory management and price supports to assure stability in the national economy and the food supply. If you cannot do that in a manner that serves the independent mid-range owner-operator, just terminate the program - let's get it over with and move ahead.

Turning now to specific provisions, through a combination of the loan rate "formula" contained in the 1985 FSA and authority in the "Findley Amendment," loan rates for wheat and feed grains have been cut by 40% since 1985.

The publicly stated purpose for reducing loan rates was to regain U.S. competitiveness and market share in the export markets. However, the resulting loan rates, as currently determined, appear to have little or no relationship to world market prices, nor are they related to producer cost of production or net farm income.

The current legislation, if extended without constructive modification, almost ensures that loan rates will continue to decline to unrealistic levels with very little likelihood that they will increase or respond to world market price changes. The loan rate for wheat, one of our major export commodities, is more than 40% below the current world market price. The history of 50 years of farm program experience has taught us that with fair weather and normal market reaction, prices and net farm income will follow loan rates down.

	World Market Price versus U.S. Loan Rates	
	1990 Loan Rate	Current World Price
Wheat	$1.95	$3.50
Corn	1.57	2.20

	Proj. Loan Rate w/Ext. of 1985 Act	Proj. World Equil. Price
Wheat	Equal or less than 1990 rate	$2.75 to $3.00
Corn	"	$1.75 to $2.00

Total budget exposure for program commodities has increased dramatically since 1985, due to the progressively increased spread between target prices and loan rates. A price support program for grains can be operated at much less cost than experienced in the late 1980s. We advocate retaining the present target price levels and increasing them in the future to reflect our rising costs of production.

National grain loan rates should be determined as follows:

A. Eliminate the Findley Amendment entirely.

B. The Secretary shall project the expected average world market price and anticipated export volume for the commodity for the upcoming marketing year. (USDA currently determines world market prices for rice and cotton. USDA also determines world prices in the administration of the EEP Program for wheat and other commodities. This provision would mean that the Secretary must publish such projections and explain his reasoning when rates are first established.)

C. Loan rates should then be set within a range that recognizes the projected world equilibrium prices, but also ensures that the total resulting export value of the commodity will be at least equal to the average export value of the commodity for the three preceding years. (Note: The revenue from total grain exports actually dropped from $17.7 billion in 1984 to $13.1 billion in 1988, even though volumes were up significantly.)

D. The above determinations notwithstanding, the resulting loan rate cannot be less than 75% of USDA's most recently determined three year national average production costs for the commodity. This provision is not intended to, nor should it, become the sole criteria for setting minimum loan rates. It is offered, however, to assure that fair attention is given to the domestic market and the importance of relating these determinations to net farm income. There are significant considerations other than export market aspirations.

Grain Reserve and Stock Policy

The recent drought should serve as a reminder to all of us of the importance and basic necessity to maintain adequate food reserves to meet our domestic needs, as well as the needs of other countries who rely on us for their food supply.

Original legislation, enacted by Congress for the management of CCC inventories, the Strategic Food Reserve and the Farmer-owned Reserve ensured that an adequate reserve policy would protect the public interest. If administered wisely, those reserves also would be sufficiently isolated from the market to prevent major drops in the market during years of overproduction. Unfortunately, these legislated requirements for the maintenance and management of our reserve stocks have been circumvented. Through a combination of the use of PIK Certificates, lowering of loan rates to unrealistic levels and the undermining of CCC minimum sales policy we no longer have a reserve policy. Under current Administration policy, all grain stocks are "free stocks." The legislated release price for the Farmer-owned Reserve and the minimum resale policy for CCC-owned stocks has been eliminated. Even the small Strategic Food Reserve of 4MMT has been released into market channels twice during the last year.

The latest Administration proposals concerning CCC resale policy and their recommendations regarding the Farmer-owned Reserve, simply stated, is a no-reserve, free stock policy proposal.

Programs can and must be developed which will reduce government costs, improve net farm income and ensure that the U.S. will continue as a reliable and viable exporter of our agriculture production. It should not be a question of dropping our prices to less than our cost of production versus a loss of export markets. There are other alternatives that must be pursued if our system of family ownership and operation of our farms is to continue.

Other Issues

President Woodland, in addressing a group of farmers and business leaders recently, made an effort to put the minds of environmentalists and animal rights activists at ease by assuring them that farmers are the front-line troops on both issues. "No one is more directly and quickly affected by polluted ground water and soil than farmers because their total future depends on the treatment of the environment. Feeding, doctoring and handling animals in a humane manner is also vital to a farmer's financial wellbeing."

Mr. Woodland went on to state, "What should be of special interest to both producers and consumers is the rapid consolidation of power in the meat and milk processing industries. Historically, when concentration of power reached present levels, the government would step in and break up the powerful combinations."

The vertical integration of feed production, cattle feeding and meat packing has expanded rapidly. The Justice Department and the Congress appears not to care about this threat to the survival of producers, feeders and small business concerns. The Committee would do well to explore the breakdown in administration of the antitrust laws after you have written a farm bill.

If we can be helpful, please call on us.

Senator KERREY. Thank you, Mr. Paul.

The next witness is Harvey Sanner with the American Agriculture Movement.

Senator PRYOR. Harvey Joe Sanner, Mr. Chairman.

Senator KERREY. I apologize.

Senator PRYOR. A very famous citizen of our State.

Senator KERREY. The next witness is Harvey Joe Sanner.

STATEMENT OF HARVEY JOE SANNER, NATIONAL PRESIDENT, AMERICAN AGRICULTURE MOVEMENT, INC., DES ARC, AR

Mr. SANNER. Thank you, Senator, Senator Pryor. You folks know that this is one of the few Senators in the U.S. Senate who is going to be elected by acclamation this year. The most popular guy that has ever lived in Arkansas.

Senator PRYOR. Do not believe it.

Senator CONRAD. Have they not found an opponent for him yet?

Mr. SANNER. Cannot find one.

Senator PRYOR. We have 2 weeks left till the ticket closes. I will have probably 20 or 30 before then.

Mr. SANNER. I doubt it. His plane landed in North Little Rock the other day. It could not get in to Little Rock Airport. The bridges were all blocked. He walked across the river over to Little Rock. [Laughter.]

A big audience was there on the river bank waiting on him, most of them gave him a campaign contribution when he got there.

Senator PRYOR. Get out of here.

Senator DASCHLE. Did he part the water first or——

Mr. SANNER. He is one of our favorite guys.

Senator KERREY. We will not take any of this out of your 5 minutes.

Mr. SANNER. All right. OK. Now on my time, let us all raise prices and go home early. What do you all say about that? That is all we need to do, I think. I do appreciate the opportunity to be here, and I appreciate you, Senator Pryor, and the work you are doing.

REMARKS CONCERNING THE 1985 FARM BILL

I have a prepared statement. No need in me reading it. All of you folks have a copy of it, and it is going to echo a lot of what you have already heard this morning from Jim Hightower and Mr. Paul and Mr. Swensen and all these other folks. To simply continue the 1985 farm bill and freeze targets as some would advocate, we might as well go ahead and hang a welcome sign out, "Welcome to the Farm Crisis of the 1990's" because we are going to create one, I think, worse than we had in the 1980's.

FARM INCOME IS NOT AT A RECORD LEVEL

Senator Conrad, I appreciate your chart. I do not know why USDA with all their computers and economists, they cannot put together charts as well as you do. Yours is much more accurate. Farm income is not at a record level. We had some good farm income in Arkansas in 1988, early 1989, but it was because of the drought in the Midwest more so than it was the 1985 farm bill.

There was a great deal of Federal money cranked into Arkansas through the form of deficiency payments, but the biggest thing that picked our income up was soybeans went to $9 instead of $5 after the drought in the Midwest, and that is what sold a lot of tractors and pick-up trucks in Arkansas this past year. We do not have that anymore. So to freeze targets is simply not enough.

FLEXIBILITY

Flexibility, boy, put that between two pieces of bread and try to make a sandwich out of it and see how far it will get you. I know what kind of flexibility they are talking about down at the Department. They are talking about lower price soybeans. We need some flexibility, sure, but I thought that had pretty well be handled with the 0/25 issue on soybeans, particularly as it refers to oilseeds. It does not necessarily refer to the need for crop rotation.

OPPOSED TO THE NORMAL CROP ACREAGE PLAN

We in AAM are opposed to the normal crop acreage plan, too, unless we balance our programs, and right now we do not have them balanced. Soybeans, as you well know, has a program that is inequitable with others. And you take normal crop acreage programs, you are going to shift all those acres into rice or cotton or some other program. So until we have our programs in proper ratio, normal crop acreage, we think, would be a disaster. So we would be opposed to that.

FINDLEY IS BAD

Findley is bad. No doubt about that. I think we all agree that it should be repealed.

DO NOT GIVE THE SECRETARY MORE DISCRETION

I think probably as far as giving the Secretary more discretion, he does not need that. He has already fouled up too much with what he has. This committee spent a lot of valuable time after the 1985 farm bill backing up and correcting the farm programs because the Department refused to follow the intent of Congress.

You know yourself that I have, and many others in this room, been in here to correct situations that need not have been corrected. So I hope we can take out some "may's" and put some "shall's" in the 1990 farm bill.

THE ISSUE WITH FAMILY FARMERS

I think probably as far as the issue with family farmers, we have lost far too many, and I do not think anybody would disagree with that. I do not agree that it is just the normal course of things, as some economists say, that it should have happened. It happened because of Federal farm policy and it is going to take a change in direction in Federal farm policy to correct it.

Maybe a few years ago it did not need correcting. Maybe we all benefited through cheaper food and fiber. No more. We have lost far too many. Our rural communities are drying up. We need a program that will keep those families that have survived this crisis, that want to stay on the land farming, and let them be, you

know, let them be a productive element of society, and so whatever we can do to get market prices up and reduce the burden on the taxpayers.

ENVIRONMENTAL CONCERNS

I think as far as environmental concerns, you don't even need to start addressing that issue until we recognize that it is going to be a family farm system that you are going to have to have if we are ever have the kind of environment we want in this country.

CONCLUSION

So, I will just say let us start with farm income and an environmental program, as well. As far as the soybean program, I am basically a soybean farmer, and it is going to be a sad commentary if this committee has to tell American soybean farmers that they are less equal than cotton, rice, corn or other producers. And I do not know just where we are going to come out with the soybean program. I think we all recognize what we have had is an utter disaster. We have shipped our industry, a great deal of it, to South America. Probably the next thing we will ship down is the poultry industry. They will probably go where the soybeans are grown at some point in time in the future. I see the red light is on and I respect that gavel, too, so with that I will be quiet. And thank you all.

[The prepared statement and attachment of Mr. Sanner follow:]

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TESTIMONY OF

HARVEY JOE SANNER, NATIONAL PRESIDENT

AMERICAN AGRICULTURE MOVEMENT, INC.

before the

Senate Committee on Agriculture, Nutrition, and Forestry

March 21, 1990

Strength From The Land

Thank you, Mr. Chairman. I am Harvey Joe Sanner, President of the American Agriculture Movement. I am a family farmer from Des Arc, Arkansas. My principal crops are rice and soybeans. AAM is a general farm organization which represents farmers producing a wide variety of commodities in 32 states. I appreciate your holding this hearing to listen to the views of general farm organizations on what is needed for the 1990 farm bill.

Many things have changed since hearings were held on the Food Security Act of 1985. Stocks of many commodities have been drawn down by two years of drought. Market potential in Eastern Europe has grown beyond our wildest dreams -- if these new governments can restore order and rebuild their economies. Many marginal acres of land have been taken out of production through the Conservation Reserve Program. And, there are many fewer farmers now than there were five years ago.

But, for all of the changes over the last five years, several things remain the same. One thing that has not changed is AAM's commitment to the idea that every producer should have the chance to earn a fair living from the marketplace, with agricultural prices that cover the cost of production. A second thing that continues from 1985 is the unfortunate insistence by some in our government that the only valid goal for international relations is absolute free trade. Third, concern over the environmental impact of how we produce food is steady, and even growing beyond soil erosion into protection of water supplies. My testimony today will focus on these three areas from AAM's perspective.

Commodity Prices

To improve farmers' chances of recovering their costs of production and to lower government costs due to deficiency payments, AAM believes there must be a new approach to farm policy. Our support price goal should be at least 70% of parity, and we must also recognize the importance of controlling production of commodities to keep supply and demand in line and to keep market prices above costs of production. I cannot think of any other industry where producers of a commodity are routinely expected to accept less for their product from the marketplace than it cost them to produce it. General Motors would not do it, Zenith would not do it, Wilson Sporting Goods would not do it, and American agriculture should not have to do it either.

Our goals for price and production levels lead us to several more specific recommendations in a number of commodity areas. In wheat, feedgrains, and soybeans, loan rates should be raised to at least 70% of parity, with a 1% per year increase until loan rates reach 90% of parity, which is where AAM has always believed loan rates should be. Also, the Findley Amendment, which gives the Secretary discretionary authority to lower loan rates, should be repealed.

In addition, soybeans should be included as a program crop. Soybean producers should have the income protection, and program

administrators should have the ability to determine necessary production levels and reserve needs. Producers should be able to use soybean base as a part of their rotational practices.

Traditional price ratios among grains should be restored to avoid future situations where we fall short on one crop, because the commodity program, rather than the market, has made another crop more profitable. In oats and soybeans, we believe this lesson was learned last year. The corn program discouraged the production of those two crops, which turned out to be in short supply when the drought hit. Our formal resolutions, which are attached to my testimony, recommend the following loan rate relationships:

Beans to Corn:	**2.40 to 1.00**
Wheat to Corn:	**1.45 to 1.00**
Cotton to Beans:	**10.00 to 1.00**

Commodity bases should be stated in bushels and pounds rather than acres. From a planning standpoint, it is easier for producers trying to manage their input costs, and it is also easier for program administrators to plan supply needs and determine program costs. In addition, we believe that producers must have the ability to establish their actual yields with ASCS, and we object to the USDA decision to charge producers a $15.00 fee to record proven yields. Common sense requires that producers be paid according to their ability to produce, not by some artificial formula that can be manipulated at the whim of the Office of Management and Budget. We also recommend allowing producers to use the same established yield history for all USDA agencies -- including ASCS, FCIC, and FmHA.

Supply control measures should be used to keep market prices above loan rates. The method of supply control, whether production limits or marketing quotas, should be put in place after a referendum among producers. If we can have a referendum two or three years after we put a check-off program in place, then a referendum on commodity programs before they go into effect shouldn't be too much to ask.

AAM recommends discouraging the practice of jumping in and out of the program in order to build base. We would suggest requiring any producers who choose to leave a program to stay out for a second year, and then to take a "zero" in yield and base calculations for the years out once they return to the program. Stepping out of the program for a year to build base frustrates the purposes of supply control, and can increase taxpayer costs. We certainly shouldn't reward those producers who are trying to farm the program instead of the land.

We would recommend allowing producers of wheat, feedgrains, and soybeans to switch up to 20% of their commodity base, on an annual basis, among those three commodity groups in order to respond to market needs. If a producer chooses to plant a traditional

rotation crop, such as alfalfa or sweet clover, in order to use common sense soil conservation practices, his or her program commodity base should be protected. We do not support the idea of cutting back on the amount of base eligible for payment, and then making it up to program participants by allowing them to destroy the markets of producers of non-program crops. Too often in the last fifteen years, farmers have been pitted against each other by the design of the government programs. Flexibility in decision-making should not be the equivalent of cutting costs by cutting producers out of the programs.

AAM supports the continuation of the marketing loan program for cotton and rice, but we believe that loan rates should be raised to the target price level. Set-a-side requirements should be directly tied to carryover stocks. The Secretary should have to account for what's already on hand in deciding what production levels should be for the next year. We also recommend requiring that, whenever an acreage set-a-side or other supply control tool may be in effect for cotton and rice, that producers' bases be frozen for the year. The length of cotton loans should be continued but the loan should terminate as soon as the cotton actually changes hands.

Dairy should have a national quota program, after a producer referendum, and also targeted at 70% of parity. Surplus should be redefined as stocks in excess of the government's needs for its own program commitments. Producers should not be penalized with price cuts on the basis of an arbitrary trigger that doesn't even account for government food distribution programs and concessional sales.

We recommend that domestic sugar, peanut, and tobacco programs be left in tact. They work for producers and consumers at virtually no cost to the government. We oppose efforts to alter those programs here or to trade them away overseas.

Finally, we also recommend that marketing orders for fruits and vegetables not be changed.

International relations

We cannot discuss farm legislation without also discussing the General Agreement on Tariffs and Trade, or GATT, which has progressed from total elimination of all programs by the year 2000 to a substantial reduction of "trade distorting" subsidies. I would add that in a hearing before the House Ways and Means Committee, U.S. Trade Representative Carla Hills would not rule out the possibility that the rural electric system would be viewed as a trade-distorting subsidy, when questioned by Congressman Dorgan.

Last April, Secretary Yeutter told this Committee that Congress would be free to write the 1990 farm bill in Washington, D.C., but that it might have to be amended in 1991 to make the law consistent with the final GATT agreement. While Congress may not jump at the chance to rewrite the 1990 farm bill in 1991, we are

still concerned because past farm bills have left the Secretary a great deal of discretion to implement -- or not implement -- programs as he saw fit. Even though the U.S. Trade Representative and the Secretary of Agriculture have sworn to uphold the law of the land, we are concerned that many important parts of a 1990 farm law will simply be ignored if the Administration can't convince Congress to change the law to be consistent with GATT. Given the Administration's complete failure to defend our sugar program in GATT, and the stubborn insistence on cutting the dairy support price instead of using available supply management options, we believe our concerns are well-founded. Fair trade and domestic farm programs may be swept under the rug by the free trade broom.

AAM believes that it is very important to retain programs that help the U.S. enforce fair trade terms and keep us competitive against heavily-subsidized foreign competitors. We believe there is an appropriate role for the Export Enhancement Program. However, we are concerned that world prices have already been forced too low for any substantial gains in market share to really benefit American producers. Volume without value is meaningless. We would prefer to see international negotiations, either through GATT or through another similar group, to discuss supply and demand -- including reserve needs -- on a global basis. Negotiating market share hardly seems unreasonable anymore when GATT is already taking aim at member countries' domestic farm programs.

If GATT is successful, the American public will have a wider variety and larger supply of imported food products. In as much as the 1985 farm bill was a consumer-oriented "Food Security Act", and because of recent concerns among consumers regarding the safety of their food, we recommend that the 1990 farm bill include a requirement for country-of-origin labeling. It is no secret that imported foods are not inspected as often as domestic produce, nor is it a secret that U.S. chemical companies have been exporting pesticides banned in this country, only to have us import the end food product. We commend you, Mr. Chairman, for your bill attempting to increase information available on this practice. But again, it is not enough for consumers to know that a food item from country X may have been sprayed with chemical Y, when consumers do not know whether an item on the grocery store shelf came from country X or was produced here. If consumers choose to protect themselves by not buying the product at all, the impact on domestic producers could be substantial. We believe that consumers have a right to know where their food came from, particularly if they're going to have a much higher volume of imported food because of GATT.

Soil and Water Resources

One of the lasting achievements of the Food Security Act of 1985 was the Conservation Reserve Program (CRP), which has taken about 30 million acres of marginal land back out of production. While the program might be accused of providing benefit to farmers who failed to use good conservation practices back in the days of "fencerow to fencerow" planting, the goal of reducing soil erosion and saving precious resources for the future had to be viewed as overriding. One of the great failures of the Food Security Act of 1985 was the push toward a single commodity base, such as corn, which discouraged the use of traditional soil-restoring crop rotations, for fear of losing program base. Commodity programs must be structured to allow producers to do what they know is right for the soil to keep it productive for future years. We would suggest establishing a multi-year set-a-side rotation program, such as the program introduced by Senator Pryor. This soil restoration program would allow producers to bid in land for three years. All soil types should qualify with a cap placed on the amount allowed to be bid in by each producer. We suggest the cap should not exceed 30%. This program would complement the existing 10-year CRP program, and could also serve as a forage reserve, since land would not have to be highly erodible to qualify. Coupled with a bushel-based supply control program and the 20% base flexibility I discussed earlier for wheat, feedgrains, and soybeans, we would go a long way to restoring common sense practices for soil conservation.

CRP contracts will begin to expire within the next few years, and this would be a good time to begin discussions on what to do with that land. We must try to strike a balance between the interests of taxpayers, who have invested ten years of payments into rebuilding the soil, with the needs of the landowner, who is trying to make a living. We support at least continuing base protection where producers agree to leave CRP ground in a conserving use.

Since 1985, our awareness of groundwater problems has grown considerably, particularly with regard to the normal long-term use of agricultural chemicals. We urge the Committee to include research of, and farmer education on, less chemically-intensive farming techniques. But recognizing that there are already areas of contamination and some land on which no chemicals should be used for fear of leaching into groundwater, not to mention fragile wetlands, we urge you to expand the types of land eligible for CRP and to authorize voluntary longer-term easements. Farmers should have a last resort that will allow them to do the environmentally responsible thing without putting themselves out of business.

I would like to take a moment to stress the importance of dealing with wetlands in a comprehensive way. Surely, many of you have received phone calls from constituents similar to the calls we get every day in our office from frustrated farmers. In some cases, farmers who were told by SCS that prior converted wetlands qualified for exemption from swampbuster, have gotten in trouble with the Army Corps of Engineers for performing routine maintenance on a drainage ditch. In other cases, the Corps has declared

as much as a quarter of the farm to be a wetland, without compensating the landowner.

We believe that there should be a uniform definition of what constitutes a wetland, regardless of the agency involved. There should also be one place to go to appeal a wetlands determination, regardless of the landowner involved. There should also be some recourse for a landowner who is denied the use of his property without compensation. AAM would support using a system like the existing mediation programs in place for debtor/creditor negotiations. A landowner should be able to bring the Soil Conservation Service, the Fish and Wildlife Service, the Environmental Protection Agency, the Army Corps of Engineers, or any of their state-level equivalents, together at the same time. All parties should have the opportunity to decide once and for all if the land in question is a wetland and, if so, what fair compensation would be.

Finally, I would urge you to review the issue of concentration in American food production. I began my testimony by pointing out the rapid changes in Eastern Europe. AAM believes that many of these revolutionary changes were due in large part to the previous Communist governments' inability to provide an affordable food supply for their citizens. Yet, even as those nations are turning their backs on centralized decision making, production, and processing, the United States moves closer and closer to a centralized system without even the acknowledgement, much less the attempt to control it, from our government. A vertically-integrated, highly concentrated food delivery system will not work in the United States any better than it has worked in Eastern Europe. We do not believe there is any substantial difference between centralization in the hands of government and centralization in the hands of private industry. We have seen what deregulation has meant to savings and loans, to transportation, to health care and health insurance, to housing, and in each case the result has been scandalous.

In several sectors of agriculture, we are already at a point where the notion of a free market is a myth. International competition is quickly becoming a fight among producers of raw products to see who can be the least cost contract supplier to one of a handful of multi-national corporations who are enjoying enormous profit margins supplemented by export subsidies. The producer income, trade, and environmental implications of continuing a high-volume, low-value push for exports is clear to us. We urge Congress to act quickly and forcefully to maintain a long-term food production system that focuses on individual ownership and decentralized production.

Thank you again for the opportunity to be here today. I will be glad to address any questions you might have.

ATTACHMENT

Selected Resolutions of the American Agriculture Movement, Inc.

COMMODITIES RATIO

(1) WHEREAS, the loan rates of agriculture commodities are too low and inconsistent; and,

WHEREAS, this inconsistency with which commodities are supported with relation to each other has caused farmers to switch from one crop to another creating expensive outlays, etc.; therefore,

BE IT RESOLVED, that we recommend that loan rates follow established ratios which are:

Beans to Corn	2.40 to 1.0
Wheat to Corn	1.45 to 1.0
Cotton to Beans	10.0 to 1.0

Note should be made that all feed grains are already indexed to corn. The ratios should be set at 100% parity level. -1986-

COST OF PRODUCTION AND PRODUCTION CONTROL

(1) BE IT RESOLVED, that the Secretary of Agriculture be requested to establish a National Agricultural Cost of Production Standards Review Board of seven members who are engaged in the commercial production of one or more of the various agricultural commodities produced in the United States and that, in doing so, be insured that these members are persons who depend on agriculture production for the major portion of their income. -1986-

(2) WHEREAS, agriculture income is directly related to production:

BE IT RESOLVED, that AAM, Inc. supports producer referendum to determine production controls. -1989-

(3) WHEREAS, agricultural production is a problem worldwide. Many nations are plagued with over-production, while others are not self-sufficient.

BE IT RESOLVED, that the AAM, Inc. supports the right of these nations to become self-sufficient, by subsidizing their domestic production in order to promote internal stability. -1989-

DAIRY

(1) BE IT RESOLVED, that AAM, Inc. continue to work with other commodity groups to seek ways to stop the dumping of dairy or beef products as spelled out under the anti-dumping code of the GATT Agreement. -1986-

(2) WHEREAS, the recent government programs have failed to protect our dairy farmers,

BE IT RESOLVED, that the AAM, Inc. supports the establishment of a national quota system to more adequately control milk production. -1989-

IMPORTS - EXPORTS - GATT

(1) WHEREAS, the domestic price of agricultural products in the U.S. has been adversely affected by the unlimited and unrestricted import of subsidized foreign produced commodities which are in some cases of lesser quality; therefore,

BE IT RESOLVED, all imported products should be labeled as per the country of origin all the way to the consumer.

BE IT RESOLVED, all imported products should meet the same inspection and quality as required of U.S. producers.

BE IT RESOLVED, chemicals and substances banned from use in the U.S. should also be banned on products imported into the U.S.

BE IT FURTHER RESOLVED, that AAM, Inc. recommends that imports of all agricultural commodities should be controlled by a price trigger program. When the domestic price is depressed, it should automatically close the import gate. -1986-

(2) WHEREAS, the American farmer and rancher is facing economic disaster and extinction due to commodity imports on U.S. markets at

uncontrolled volume and below the American farmers and ranchers costs of production; and.

WHEREAS, the U.S. government, commodity traders, and users support these unfair practices; therefore,

BE IT FURTHER RESOLVED, that AAM, Inc. through a committee appointed by its president, monitor all imports of agricultural products, determine those which are below the cost of production and create public awareness of these actions through press conferences and legal demonstrations at major ports of entry.

BE IT FURTHER RESOLVED, that this committee seek support of and cooperation from other organizations representing similar interest. -1987-

(3) WHEREAS, the export of agriculture products at a profitable level are essential to a prosperous American agricultural and national economy; and,

WHEREAS, the export of agricultural products contribute significantly to a favorable balance of international trade; therefore,

BE IT RESOLVED that AAM, Inc. supports every effort made to develop and expand world markets so long as those markets are at 100% parity.

BE IT RESOLVED that AAM, Inc. supports the concept of bartering and reciprocal agreements with other countries for the purpose of exporting our agricultural commodities. -1986, changed in 1988-

(4) WHEREAS, a potential market exists for huge amounts of rice in the nation of Cuba that is now closed to U.S. producers; and,

WHEREAS, this lost market is contributing significantly to surplus stocks held in the U.S. and is contradictory to U.S. farm policy, whose success is heavily dependent on exports.

BE IT RESOLVED, that exports of agricultural commodities be permitted and encouraged to the nation of Cuba. -1987-

(5) WHEREAS, under our constitution, the purpose of the legislative body (Congress) is to write legislation.

BE IT RESOLVED, that AAM is opposed to an international body such as GATT formulating our agricultural policies. -1989-

(6) BE IT RESOLVED, that AAM, Inc. is opposed to agricultural policy being written at the GATT talks,

BE IT FURTHER RESOLVED, that the U.S. Congress is the proper place to write U.S. agricultural policy. -1990-

Senator KERREY. Thank you very much, Harvey.

The next witness is Dean Kleckner of the American Farm Bureau Federation.

STATEMENT OF DEAN KLECKNER, PRESIDENT, AMERICAN FARM BUREAU FEDERATION, RUDD, IA

Mr. KLECKNER. Thank you, Mr. Chairman.

INTRODUCTION

I am Dean Kleckner, president of the American Farm Bureau Federation. I farm in northern Iowa, in a little town of Rudd, where I raise corn, soybeans, and hogs, on about a little less than 400 acres. So it is a family type operation.

There is a long ways to go and a short time to get there for my testimony, I am referring to my testimony, not the committee's timetable for a farm bill. I am going to cover a lot of issues that are in my testimony. I am going to brief it down a lot.

We are a basic supporter of the Food Security Act of 1985, the current farm bill. It has played a role, not the only role, but a role in the better farm prices we have today.

AFBF'S GENERAL OBJECTIVES FOR THE 1990 FARM BILL

The task before this committee, as we see it, is really threefold.

First, we in Farm Bureau think the general objectives for the new bill ought to be that it reaffirms our commitment to being competitive. We are partly there.

Second, it assures the opportunity for farmers to receive an adequate farm income.

Third, it should maximize the farmer's opportunity for some freedom to respond to market conditions.

LOAN RATES

Loan rates, we think they should be tied to a percentage of the average price over the past years. We support the Findley amendment. You have not heard that yet. We also support the marketing loan concept for cotton and rice.

TARGET PRICES

Target prices, we feel, should not be reduced below their present [1990] levels.

PRODUCTION ADJUSTMENT PROGRAMS

Production adjustment programs should be implemented through voluntary adjustments when carryover supplies exceed certain levels.

PAYMENT ELIGIBILITY AND LIMITATIONS

Farm Bureau supports the present program of payment procedures and opposes any further action that would move toward more targeting. We oppose that. We do not think they should be based on an arbitrary measure of farm size, gross income, or total sales receipts, and that is being talked about, as you all know.

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ACREAGE FLEXIBILITY

Regarding the issue of acreage flexibility, I will spend a bit more time. We are a general farm organization as compared to commodity groups. That means we represent all types of farmers. I think every commodity produced has members in Farm Bureau. We are particularly concerned that the programs provide additional flexibility, and we need to move that way, but they should be fair and equitable between program crops and nonprogram crops and livestock.

Some proposals would make payments to farmers, maintain the base, which we think needs to be done when you shift. Base has a value. My corn base on my farm has a value. I cannot sell it, but a farm with a big corn base is worth more than a farm with a small corn base. They could be side by side. So the base has value and needs to be maintained. But we do not think that you ought to make payments to farmers when they shift crops on acres that are planted to other crops. That is then subsidizing those farmers in competition to the nonprogram crops that will be grown, and those people go into orbit with reason.

WE LIST SOME PRINCIPLES IN FLEXIBILITY THAT WE THINK ARE IMPORTANT

So we are very concerned about that. We list some principles in flexibility that we think are important.

Allow farmers to move out of continuous cropping without sacrificing the base acres, as I mentioned; should not subsidize myself, for example, for being able to shift into growing fruits or vegetables or something else, the nonprogram area; and it is going to save the Government some money. And I think you are looking for that. If you do not make those payments if the crop is not planted, then the program will cost less.

GRAIN RESERVE POLICY

Grain reserve policy, the principles of farmer control is sound, but we believe the current farmer-owned reserve has simply been an attempt to manage grain prices within specific ranges, and that is fundamentally inconsistent with market orientation.

So we have real questions about the way it has been done. We believe it ought to be a 9 month loan with an extension of another 9 months. Farmer controlled, yes. But not the way it is operating now. And we list some things that I will not take the time, but they are in the testimony.

We are generally supportive in Farm Bureau of continuing the wheat, feed grain, cotton, rice, sugar, peanut and wool programs in their present form.

DAIRY AND SOYBEANS

We think there should be some modifications in dairy and soybeans, and I list them. Briefly in dairy we like the market orientation feature of dairy in the current farm bill. There needs to be some refinements in the calculation of surplus milk and milk components that is currently there.

The Commodity Credit Corporation ought to calculate dairy purchase on total solids, as opposed to the way they do it now. I list a few other areas that we think should be changed in dairy.

In soybeans, I am a soybean grower as is my neighbor to the left is, Mr. Sanner. We support a target price, the concept for soybeans, or perhaps the marketing loan. That principle, we think, could apply in soybeans.

CONSERVATION

I will close with conservation because the red light came on. We support a number of changes in the conservation provisions of the farm bill. Our major effort here, we believe, members of the committee, should be to swallow what we have on the plate now and in our mouth without adding more in there.

We have got targets for conservation that have to be done by 1995. They are going to be costly. I list, if the farmers who have signed up for their plans do what they are supposed to do by 1995, they have got to be 216,000 miles of terraces built between now and 1995, over 1 million acres of grassed waterways; 45,000 structures; and a few more. If that is added to by law there is not enough time or probably money to do it. Let us try to absorb what is already there. We are moving in the right direction.

CONCLUSION

I just say that we look forward to looking with the committee in your developing of the 1990 farm bill, and we will do anything we can to help you. Thank you.

[The prepared statement and attachment of Mr. Kleckner follow:]

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STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION BEFORE THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY REGARDING THE 1990 FARM BILL

Presented by Dean Kleckner, President
American Farm Bureau Federation

March 21, 1990

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION BEFORE THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY REGARDING THE 1990 FARM BILL

Presented by Dean Kleckner, President
American Farm Bureau Federation

March 21, 1990

Mr. Chairman and members of the Senate Agriculture Committee, thank you for the opportunity to present testimony on behalf of the American Farm Bureau Federation regarding the provisions of the 1990 farm bill. I am Dean Kleckner, a corn, soybean and hog producer from Rudd, Iowa. I also serve as president of the American Farm Bureau Federation.

Farm Bureau has been a supporter of the Food Security Act of 1985. We believe it has played an important role in improving the economic condition of U.S. agriculture. We should not forget, however, that factors totally unassociated with the bill, like the price of fuel, favorable marketing conditions for livestock and poultry, positive developments in farm policies abroad and economic growth in the rest of the world, also played major roles in improving the income situation of U.S. agriculture. I bring this up so that we do not forget that farm legislation is just one of many factors that affect profitability in agriculture.

The task before us now is to take the current, relatively successful farm legislation and improve it in such a way that agriculture can continue to prosper in the 1990s. The changing global environment for economic development and trade, rapid changes in technology, increased competitiveness and awareness of environmental issues are all major factors that will impact agriculture in such a way that it can continue to prosper in the 1990s. The next farm bill must be flexible enough to permit farmers to adjust to an uncertain future.

By nearly every measure, U.S. agriculture is in better condition today than it was in 1985. Given this favorable experience, I would like to urge Congress to continue to pursue many of the basic policy objectives that have contributed to the improvement. In addition, we will support modifications to farm policy that will enhance the structure and effectiveness of farm programs.

AFBF's general objectives for the 1990 farm bill are that the legislation:

1) Reaffirms our commitment to competitiveness;

2) Assures the opportunity for an adequate level of farm income; and,

3) Maximizes freedom for farmers to respond to market conditions.

These goals will be realized if the following recommendations are included in the next farm bill.

Loan Rates:

Loan rates should continue to be tied to a percentage of the average price of the commodity over the past several years. This will ensure competitive pricing. Furthermore, provisions such as the Findley adjustment or the marketing loan for cotton and rice should be continued to assure that our products remain competitive in world markets.

Target Prices:

Target prices should not be reduced below their 1990 levels. Target prices have been reduced approximately 10 percent over the past five years and additional reductions would result in an unacceptable lowering of farm income.

Production Adjustment Programs:

Production adjustment programs should be implemented through voluntary adjustments when carryover supplies exceed desirable levels. Therefore, we support continued use of carryover trigger levels to determine the extent of acreage reduction programs. We believe there may be a better form of establishing the conditions under which acreage reduction programs are authorized or required by USDA. For several years, Farm Bureau has advocated requiring voluntary wheat and feed grain acreage reduction programs when carryover exceeds 4 percent of annual world utilization. The USDA objective in structuring the program should result in a carryover of 3 to 5 percent of world utilization. These figures should be incorporated into the 1990 farm bill.

We have supported the 1985 farm bill acreage reduction trigger levels for cotton and rice but believe reasonable attempts to tie those levels to a percentage of usage may also have merit.

Payment Eligibility and Limitations:

Farm Bureau supports the present program payment procedures and opposes any action that would further target program benefits. We believe the payment limitations under the commodity loan, acreage reduction and disaster programs should be eliminated. However, we recognize the political difficulties in eliminating payment limits. Therefore, if a limitation must apply to cash deficiency payments, we favor no limit lower than the present $50,000 limitation.

Farm Bureau opposes efforts to further target program payments based upon an arbitrary measure of farm size, gross income or total sales receipts. Such

attempts to shift farm programs to a means-tested system of income support would make the programs ineffective and would also fail to recognize differences in farm structure and commodity production practices.

Acreage Flexibility:

The crop acreage base provisions of the 1985 farm bill have severely limited farmers' ability to respond to changes in the demand for commodities from domestic and international markets. This has been particularly true in the case of oilseeds. The program has reduced the economic incentive to produce commodities such as soybeans for the growing world trade market. This has, in turn, allowed other nations to respond to the demand that we have been unable to satisfy. In addition, the program has limited participants' ability to make planting decisions in response to conservation objectives and agronomic considerations.

There is broad consensus that farmers should have greater flexibility of making planting decisions. However, the manner in which that freedom is provided to farmers will be the subject of extensive debate. When formulating a program allowing more planting flexibility, Congress should refrain from targeting a certain quantity of additional acreage for a particular commodity that is perceived as desirable. Instead, the objective should be defined as a need to eliminate impediments to farmers' ability to respond to changing conditions. Moreover, it will be important to assure that any cropping changes are permitted to occur in a manner that treats producers equitably.

As a general farm organization representing producers of virtually all commercially produced commodities, Farm Bureau is particularly concerned that programs are fair and equitable to producers of various commodities; program crops, non-program crops and livestock. Individual farmers and various regions of the country will be affected differently by planting flexibility depending upon the commodities they produce and the production alternatives available. We firmly believe benefits extended to producers of certain commodities must not come at the expense of other producers.

The voting delegates of AFBF's 71st Annual Meeting in January approved a policy statement concerning acreage flexibility that states:

> "Producers should be allowed to interchange the base acreage among program crops and approved non-program crops provided that total deficiency payments and total crop base acreage on the farm do not increase. Deficiency payments will be made only on the permitted acreage planted to the program crop on an established crop acreage base for the individual farm."

The following advantages can be attributed to the principles of AFBF's acreage flexibility proposal:

1) It allows farmers to move out of continuous cropping without sacrificing base acreage. Currently, farmers who may wish to grow a crop other than the program crop may not do so without reducing their future base acreage and potential income.

2) The plan does not unfairly subsidize either non-program crops or other program crops that producers may grow on their crop acreage base.

3) The plan will save the government money each time a producer decides to grow a crop other than the designated program crop on his base acreage.

4) The plan is simple, straight forward and market oriented.

We believe the Farm Bureau plan is more equitable than the current USDA proposal. Under the USDA's proposal traditional producers of a crop, either program or non-program, would be detrimentally affected by producers who expand production of that crop while receiving a deficiency payment based upon the payment acreage base of another crop. We are of the opinion that the USDA's proposal could be characterized as a form of decoupling. The Farm Bureau is opposed to the concept of decoupling.

Grain Reserve Policy:

The issue of grain reserves will be a crucial element of the 1990 farm bill debate. Too often in the past, grain stocks policy has been given only limited attention in policy discussions, while most of the focus has been on issues like loan rates, target prices, acreage idling programs and international trade. The best time to discuss grain reserve policies is when stocks are at reasonable levels, as they are now. As you may remember, in the 1985 farm bill debate, the focus was on how to control burgeoning grain stocks. However, relatively little thought was given to the longer term policy implications.

The Farmer-Owned Reserve (FOR) program was created in 1977 with the objectives of assuring adequate grain reserves, permitting farmers a mechanism for holding grain on farm while receiving storage payments and keeping those commodity stocks out of the market until prices reached a predetermined "release price." These seemingly worthy objectives were attached to policy mechanisms that have proven to be detrimental to both grain and livestock producers. The program has been administered in an attempt to manage grain prices within specified ranges, regardless of the other factors in the market that influence price determination. This comprehensive grain storage policy tends to distort the production and consumption response to the world markets through government

accumulation or release of reserves. It is fundamentally inconsistent with a market oriented farm program.

Despite the objectives of enhanced farm income and adequate stocks levels, close examination of the record will show that the FOR has failed because of flaws fundamental to its concepts and characteristics. Grain reserves held in the program have exceeded two billion bushels several times in the 1980s which created downward pressure on prices. Some stocks have remained in the reserve program for up to 10 years, with release levels set so unrealistically high that farmers holding grain have not been able to move grain into the market when prices have moved to profitable levels.

The flaws outlined above illustrate detrimental consequences for grain producers who have had low prices resulting from large stock levels coupled with the inability to take advantage of favorable prices when they have occasionally developed. On the other hand, the livestock producer has been forced to pay artificially high prices in years when supplies have been tight as a result of the inability to move grain from the reserve into the market.

The fundamental flaws of the FOR have resulted in Farm Bureau adopting the following policy:

"We oppose the farmer-owned grain reserve. It should be replaced by loans made available without interest for a nine-month period to wheat and feed grain producers. A nine-month extension should be made available which should include a charge for interest."

This action would have the following advantages:

1) Producers would have the ability to hold supplies for up to an 18-month period which would permit carrying grain from a large crop into the following crop year when they could adjust their production;

2) The reserves would be farmer based and held in farmer hands until marketed;

3) The stocks would not be locked up by artificially determined release levels;

4) Stocks would not be tied up in government programs for four to six years;

5) Farmers would be permitted to integrate the grain reserve into their normal marketing strategy; and

6) Farmers would be encouraged to produce for the market, not for a grain reserve program.

This market oriented policy change could be accompanied with authority to replenish the Food Security Wheat Reserve to its four million metric ton maximum.

The USDA proposal on grain reserves is similar to Farm Bureau's policy in respect to the program's objectives. We see a definite advantage to our proposal in that it would not be limited to the 600 million bushels of feed grains and 300 million bushels of wheat. Farm Bureau's loan extension would permit all of the grain under CCC loan to be held in the program for the 18-month period rather than defining a specific level of reserve. This is similar to the 18-month cotton loan which has proven to be effective and popular with producers. As with cotton, it would minimize forfeitures to the CCC.

Farm Bureau is generally supportive of continuing the wheat, feed grain, cotton, rice, sugar, peanut and wool programs in their present form. We would recommend some modifications to programs for dairy and soybeans, however.

Dairy:

Farm Bureau suggests that the market orientation developed in the 1985 farm bill be continued. A system of price support adjustment similar to that allowed in the 1985 bill provides a market signal to producers when supply and demand are not in balance. Farm Bureau believes refinements in the calculation of surplus milk and milk components must be made to ensure meaningful market signals.

Currently, we are experiencing a structural surplus of milk. Fluid milk is barely adequate to meet demand while butter is still in excess supply. Changing trends in consumer tastes and preference are responsible for the current situation. It is our expectation that this change in consumer preference will be with us for the indefinite future.

Since the current calculation of milk equivalents is based on a fat basis, support price cuts have been triggered although in reality government purchases have declined. Recent cuts in the support price have not reflected market conditions. Farm Bureau policy calls for calculation of Commodity Credit Corporation dairy purchases on a total solids basis. This change coupled with a continuation of a price support system based on adjustments of up to fifty cents will provide a workable system which more closely mirrors the actual supply and demand situation.

As a normal part of federal food and nutrition programs, significant quantities of Commodity Credit Corporation dairy stocks are utilized. Currently, these stocks are counted as surplus purchases and count toward the 5 billion pound trigger for price support cuts. Since these purchases for foreign and domestic feeding programs are a normal part of federal government activities, they should not be included in the calculation of surplus purchases.

The American Farm Bureau Federation has not endorsed a particular type of stand-by inventory control. Farm Bureau policy does endorse consideration of the options outlined in the National Commission on Dairy Policy report, which gives the secretary discretion in choosing a temporary control method with one important caveat. As a general farm organization, Farm Bureau stresses consistent and equitable treatment of all commodity groups. This is reflected in AFBF policy which states that prior to the implementation of any inventory management program, "provisions shall be made to mitigate impact on, and make restitution to all affected commodities."

Soybeans:

Our policy supports the concept of an income support program for soybeans based upon the previous statutory loan minimum of $5.02 per bushel. This policy would allow us to support a target price or marketing loan program that used $5.02 as the support level. We will evaluate and comment on any alternative plans that support the concept of an income support program for soybeans and other oilseeds. Some form of this concept coupled with the Farm Bureau planting flexibility provision will allow producers to respond to the appropriate soybean price incentives and stem the trend of declining soybean acreage in the United States.

Program Payment Yield:

Farm Bureau has supported this concept of providing farm program benefits based upon proven yields. We supported legislation sponsored by Representative Jontz and Senator Bond in 1989 that permitted farmers to submit actual yield data to ASCS offices and directed USDA to study the cost associated with making program payments on proven yields.

Under the yield calculation employed in the Food Security Act of 1985 many producers have been assigned yields that are far from actual production expectations. We strongly believe measures to correct this situation must be included in the 1990 farm bill.

Conservation:

Farm Bureau supports a number of changes to the conservation provisions of the farm bill. We commend Senator Bond for working to develop a conservation title that will address these issues in a positive and programmatic fashion.

Our major policy emphasis for conservation in the farm bill will be to complete the task we started in the 1985 farm bill. As you will remember, Farm Bureau supported the conservation compliance provisions in the 1985 Food Security Act. We presently have policy which indicates our support for farmers meeting their compliance plans by the 1995 deadline. However, Mr. Chairman, we have serious reservations about whether this is possible if money and technical assistance are shifted out of the Soil Conservation Service (SCS) in order to implement other new

programs suggested for the 1990 farm bill.

According to SCS, they have 36,000 staff years available at the field office level to maintain a minimum presence in each field office, to carry out the recently announced water quality initiative and to help farmers implement their conservation compliance plans. While they have 36,000 staff years available, SCS estimates a need for 54,416 staff years to complete the task above.

Plenty of technical assistance from SCS will be necessary to help farmers build terraces, lay out strip cropping, convert machinery to minimum or no-tillage and other conservation practices. Again, Mr. Chairman, if any of that technical assistance is shifted to other projects, there is no way farmers can complete the application of their compliance plans by 1995.

Farmers have achieved significant erosion reduction due to the Conservation Reserve Program (CRP), application of the compliance plans and through voluntary erosion reduction measures. However, much more can and will be accomplished if we help them fully implement their plans. The amount of work to be accomplished between now and 1995 is astonishing. According to SCS, if every farmer in this country meets his or her compliance plans, we will be building 216,000 miles of terraces, 1.3 million acres of grassed waterways, 45,751 structures, 45.5 million acres will go into some type of conservation tillage and 25.8 million acres will be contoured. These are just a few of the examples of what will be necessary to accomplish the goals. A complete list prepared by SCS is attached to this testimony.

There are several changes we will be supporting as part of the conservation title of the 1990 farm bill. We support extending CRP signups in the 1990 farm bill to achieve at least the designated minimum size, 40 million acres, specified under the 1985 FSA. We also believe at least one additional signup should be held for highly erodible land in order to help farmers who cannot meet their compliance plans and still be economically viable. We are also seeking discretion to alter CRP contract periods and payment terms for acreage other than highly erodible land. In the case of wetlands, we believe the Secretary should provide at least 50 percent, but not more than 75 percent of the cost of restoration, where the economic return is justified. We also support the concept that windbreaks and shelterbelts be eligible for 15-year CRP contracts.

Farm Bureau recommends that at the end of the 10-year contract the farmers are given the option of bringing the land back into production or bidding it back into the reserve. Certainly one of the major unanswered questions regarding the CRP is what should happen to the land once it comes out of the 10-year contract? We believe trying to answer that question without a significant amount of study and input would be wrong. We propose that a study be implemented by USDA with significant input from interested parties. This study should be provided to Congress within the next two years.

Farm Bureau looks forward to continuing to work with members of the Senate Agriculture Committee as you write the 1990 farm bill. Our organization has developed its farm bill policies in consideration of the many commodity and regional perspectives encompassed in our membership. We know writing a comprehensive farm bill will require much the same exercise within the Congress. We look forward to working with you to assist in the development of a sound, effective and politically acceptable farm bill in 1990.

Thank you for the opportunity to share our views with you today.

NATIONAL SUMMARY

MAJOR FSA PLANNED ENGINEERING PRACTICES

PRACTICE	AMOUNT	STAFF YEARS
Terraces	216,000 miles	3124
Grassed Waterway	1.3 million acres	2684
Structures	45,751 (No.)	592
Sediment Basins	90,724 (No.)	515
Diversions	4750 miles	308
Other	-----	2095
TOTAL		9318

MAJOR FSA PLANNED AGRONOMIC PRACTICES

PRACTICE	AMOUNT	STAFF YEARS
Conservation Tillage	45.5 million acres	1884
Cropping System	85.2 million acres	1774
Crop Residue	55.0 million acres	1602
Contouring	25.8 million acres	1039
Critical Area	552,000 acres	543
Field Strips	2.0 million acres	504
Contour Strips	3.3 million acres	310
Other	------	1456
TOTAL		9112

TOTAL Engineering Practices	9318
TOTAL Agronomic Practices	9112
TOTAL	18430

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Senator KERREY. Thank you, Mr. Kleckner.

The next witness is Helen Waller with the National Family Farm Coalition.

STATEMENT OF HELEN WALLER, AGRICULTURE POLICY COMMITTEE CHAIRPERSON, NATIONAL FAMILY FARM COALITION, CIRCLE, MT

INTRODUCTION

Ms. WALLER. Mr. Chairman and members of the committee, I would like to thank you for having this hearing and for inviting my testimony here today. My name is Helen Waller. I am a farmer from eastern Montana and chair of the Agriculture Policy Committee of the National Family Farm Coalition.

1985 ACT

Mr. Chairman, 5 years ago, many of us family farmers came to Washington to plead with the Congress to establish and maintain a fair price for farm commodities. With grain bins and dairy barns bursting with plenty and farm prices depressed, we asked for a means to more closely balance supply with demand while maintaining a stable supply at affordable prices for America's consumers. We asked for adequate reserves of grain to protect this country against shortages.

WE DID NOT WIN OUR CAUSE IN THE FOOD SECURITY ACT OF 1985

We did not win our cause in the Food Security Act of 1985. The 1985 act has provided neither food security nor farm security for America.

The 1985 bill might rather have been titled "The Major Trade War and Grain Shippers Benefit Act of 1985."

After 5 years, we find ourselves with depressed market prices for farmers' grain, the threat of net farm income being slashed, and empty grain bins, cheese shortages and promises at home.

NATURE HAS ACCOMPLISHED WHAT THIS COMMITTEE AND CONGRESS REFUSED TO DO IN 1985

However, Mr. Chairman, nature has accomplished what this committee and Congress refused to do in 1985. Drought brought us a reduction in grain and dairy surpluses. Not a systematic reduction as we would have provided, not a balanced supply management approach, which would have assured adequate supplies for protection of consumers and farmers, but a drastic shortage, which leaves us potentially vulnerable in the face of another drought.

OTHER INSECURITIES

Depressed grain prices, as a matter of trade policy, has undercut the ability of developing Third World nations to establish sound agricultural economies. Rain forests and other fragile ecosystems are being destroyed by attempts to produce massive volumes of grain to sell in depressed international grain markets to achieve hard currency for servicing crushing debt commitments. That is the story of Third World farmers, and it is the story of American farmers.

Low grain prices lead to mismanagement of our productive capacity, to abuse of our land and water resources, and to use of chemicals and fertilizers in situations and quantities that responsible stewardship would never tolerate. The "bigger is better boys" philosophy needs to be brought up short before taxpayers' wallets and the world's topsoils are mined into extinction.

CONDITIONS WOULD ONLY BE AGGRAVATED BY MAINTAINING OUR CURRENT PRICE DEPRESSING POLICY

Mr. Chairman, conditions would only be aggravated by maintaining our current price depressing policy. We have, in the writing of the 1990 farm bill, an historic opportunity to chart enlightened directions and goals; not only for domestic agriculture and family farmers, but for the environment and agriculture economies of the Third World and the emerging democracies of the Europe as well.

ESSENTIAL PROVISIONS OF THE 1990 FARM BILL

Essential provisions of the 1990 farm bill must be:

One, farmers should receive their income from the marketplace, not through taxpayer subsidies. We need to return to a wheat and feed grains program based on adequate loan rates which will provide a fair price to farmers and a floor under world grain prices.

Two, a bushel based production management program would allow farmers maximum flexibility to use our land to produce stable supplies of grain. Farmers should not be pressured to resort to fertilizer and chemical use in attempts to maintain income as they are by current acreage based programs.

Three, sustainable agriculture practices must be encouraged. Stewardship of the land should be the heart of the 1990 farm bill and U.S. export policy.

Four, a farmer commodity reserve would provide consumer protection against shortages. This is true food security. It would further reduce taxpayer exposure and farmer risk by providing a farmer insurance program.

Targeted releases from a CCC reserve could replace price depressing general export subsidies. Five years of promises that cheap grain would bring reluctant negotiators to the table has only brought hoggish grain traders to the public trough. We need fair international agreements that would discourage worldwide corporate control of the food system.

Five, minorities are being denied their right to maintain a share of this country's productive capabilities. A new generation of farmers of all races must be allowed the opportunity of land ownership.

Senator KERREY. Helen, could I ask you to summarize at this point?

Ms. WALLER. Yes.

Six, dairy shortages, loss of dairy farmers, and increased prices for consumers are all happening at once. Slashing milk support prices and eliminating dairy herds has been a disaster. Dairy farmers need a regionally based, two-tier, inventory management program. It should be based on a farmer's costs of production with a reasonable rate of return. We must ensure adequate reserves for necessary public nutrition and hunger programs.

Thank you for this opportunity to address the committee today, Mr. Chairman. I would be glad to answer questions.

[The prepared statement and attachments of Ms. Waller follow:]

NATIONAL FAMILY FARM COALITION

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TESTIMONY OF HELEN WALLER
AGRICULTURE POLICY COMMITTEE CHAIRPERSON
THE NATIONAL FAMILY FARM COALITION
BEFORE THE SENATE AGRICULTURE COMMITTEE
1990 FARM BILL HEARINGS
MARCH 21, 1990

Mr. Chairman and members of the Committee, I would like to thank you for having this hearing and for inviting my testimony today. My name is Helen Waller. My husband, Gordy, and I raise wheat, barley, and have a livestock operation in eastern Montana. I am the Chair of the Agriculture Policy Committee of the National Family Farm Coalition (NFFC), which is made up of 42 grassroots organizations in over 30 states who are committed to preserving and strengthening the family farm system of agriculture.

You have heard from many family farmers in field hearings around the country during the past months. Today I would like to reaffirm our position that it will take major changes in farm policy if we expect to stop the exodus of family farmers from the land. We must increase net farm income through higher price supports for grain and dairy, we must make changes in credit policies, which includes addressing the needs of minority farmers, and we need new provisions to encourage sustainable agriculture. I have attached to my testimony the NFFC's farm

bill proposals for the Commodity Title and Dairy section. The credit and minority proposals have already been submitted at any earlier hearing.

Mr. Chairman. Five years ago many of us family farmers came to Washington to plead with the Congress to establish and maintain a fair price for farm commodities. With grain bins and dairy barns bursting with plenty and farm prices depressed, we asked for a means to more closely balance supply with demand while maintaining a stable supply at affordable prices for America's consumers. We asked for adequate reserves of grain to protect this country against shortages.

We did not win our cause in the "1985 Food Security Act", Mr. Chairman. The program Congress gave us provided farm income, artificially supported by massive budget outlays to make up the difference between politically depressed market prices and target prices designed to keep farmers teetering on the edge of extinction. The "1985 Food Security Act" has provided neither "Food Security," nor farmer security for America. It was, however, an act.

The 1985 bill might rather have been titled "The Major Trade War and Grain Shippers Benefit Act of 1985." While artificially depressing grain prices through policy decisions made at USDA and the White House, subsidies flowed to the major grain shippers and processors in a -Great Grain Robbery- that has benefited no one else. Not producers, not consumers, not taxpayers and certainly not the environment.

After five years we find ourselves with depressed market prices for farmers' grain, the threat of farm income maintenance being slashed because of "budget realities", no General Agreement on any agriculture issues at International Trade Talks and empty grain bins, cheese shortages and promises at home. Rather than discussing fair prices for farmers and restoring FmHA direct loans which will keep farmers on the land, we find ourselves faced with attempts to gut provisions of the "1987 Agricultural Credit Act" which was designed to stabilize farm debt at the least cost to the government.

However, Mr. Chairman, nature has accomplished what this committee and Congress refused to do in 1985. Drought brought us a reduction in grain and dairy supplies. Not a systematic reduction as we would have provided, not a balanced supply management approach which would have assured adequate supplies for protection of consumers and farmers, but a drastic shortage which leaves us potentially vulnerable in the face of another drought. It means there are no adequate reserves to assure consumers stable supplies or a farmer income from the marketplace rather than from an overburdened budget.

The 1985 Food Security Act has resulted in other insecurities too, Mr. Chairman. Depressed grain prices as a matter of trade policy has undercut the ability of developing Third World nations to establish sound agricultural economies. Rain forests and other fragile ecosystems are being destroyed by attempts to produce massive volumes of grain to sell in depressed

international grain markets to achieve hard currency for servicing crushing debt commitments.

That story is repeated around the world, Mr. Chairman. It is the story of the American farmer and it is the story throughout the Third World. Low grain prices lead to mismanagement of our productive capacity, to abuse of our land and water resources and to use of chemicals and fertilizers in situations and quantities that responsible stewardship would never tolerate. The "Bigger is Better Boys" philosophy needs to be brought up short before taxpayers' wallets and the world's topsoils are mined into extinction.

Mr. Chairman, conditions would only be aggravated by maintaining our current price depressing policy approach. We have, in the writing of the 1990 Farm Bill, an historic opportunity to chart enlightened directions and goals; not only for domestic agriculture and family farmers, but for the environment and agriculture economies of the Third World and the emerging democracies of Europe as well.

Essential provisions of the 1990 Farm Bill must be:

1. Farmers should receive their income from the marketplace, not through massive taxpayer subsidies. We need to return to a wheat and feed grains program based on adequate loan rates which will provide a fair price to farmers and a floor under world grain prices. Deficiency payment subsidies must go!

2. A bushel based production management program would allow farmers maximum flexibity to use our land to produce stable supplies of grain. Farmers should not be pressured to resort to fertilizer and chemical use in attempts to maintain income as they are by current "acreage based" programs. Disincentives to responsible farming practices must go!

3. Sustainable Agriculture practices must be encouraged. Stewardship of the land should be the heart of the 1990 Farm Bill and U.S. export policy. Unrestricted export of groundwater contaminating chemicals to Eastern Europe must be seriously questioned at USDA, not promoted as they are now. Re-importation of chemicals banned in the U.S.,through food grown abroad must be stopped!

4. A Farmer Commodity Reserve would provide consumer protection against shortages. This is true "Food Security". It would further reduce taxpayer exposure and farmer risk by providing a farmer self-insurance program. The FCR should be isolated from export grain.

Targeted releases from a CCC grain reserve could replace price depressing general export subsidies. Five years of promises that cheap grain would bring reluctant negotiators to the table has only brought hoggish grain traders to the public trough. We need fair International agreements that would discourage world-wide corporate control of the food system. The "Great Grain Robbery" must end!

5. Minorities are being denied their right to maintain a share of this country's productive capabilities. The average age of farmers is on the rise. A new generation of farmers: black, white, red, yellow, and brown, must be allowed the opportunity of land ownership. We must target credit availability, research and land inventory under existing government programs toward that goal!.

6. Dairy shortages, loss of dairy farmers, and increased prices for consumers are all happening at once. Slashing milk support prices, eliminating dairy herds, and feed grain shortages has been a disaster. Dairy farmers need a regionally based, two-tier, inventory management program. It should be based on a farmer's costs of production with a reasonable rate of return. We must ensure adequate reserves for necessary public nutrition and hunger programs. If the Secretary of Agriculture will tell America's dairy farmers how much milk is needed to meet demand and avoid shortages, America's dairy farmers will produce it!

Thank you for this opportunity to address the Committee today, Mr. Chairman. I would be glad to answer any questions you might have. God help you in the work you have before you.

National Family Farm Coalition

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FAMILY FARM ACT 1990

COMMODITY TITLE

* **PURPOSE**

A bill to provide a stable and affordable supply of certain crops, grown under more environmentally sound practices, calling for a referendum of producers on the question of establishing price supports at a level covering the cost of production for crops grown, beginning with the 1991 crop season, and for other purposes.

* **DEFINITIONS** — to be inserted as the final bill requires

* **DETERMINATION OF QUANTITY**

The Secretary of Agriculture shall determine the quantity of the national marketing quota for a commodity by estimating the quantity utilized to meet (1) domestic demand, (2) export demand, (3) food assistance requirements, (4) domestic reserve requirements, (5) Farmer Commodity Reserve. This determination would be reviewed by the Senate and House Agriculture Committees annually to ensure oversight and opportunity for public review.

* **PLANTING INTENTIONS**

A producer would declare by a designated time, to the ASCS office, their planting intentions. A producer may shift up to 20% of their crop base each year, to another program crop without losing crop base.

* **MARKETING CERTIFICATE POOL**

Pool for base adjustment: After the Secretary determines the quantity of a commodity needed, for a period of five years, a pool of marketing certificates representing a percentage (for example 1/2%) of the total marketing certificates available, and in the event that an amount of a commodity established as a National Marketing Quota is greater than 100% of the base acres for that commodity, the quantity exceeding 100% would be allocated to the County ASCS Committees for distribution to: (1) correct base to cropland ratio inequities, (2) help beginning and re-entry farmers, and (3) arrest the decline of minority landownership.

* **CERTIFICATION**

After planting, a producer must certify, within 1% tolerance of planting intentions.

*** MARKETING CERTIFICATES ISSUED**

Marketing certificates would be issued to producers, determined by multiplying a farm's base acres, times established yield, times marketing certificate factor assigned to that farm size. The greater the farm's production, the smaller the percentage of marketing certificates issued.

Marketing certificates percentages shall be based on the following formula:

	CORN	BARLEY	WHEAT	SOYBEANS		Marketing Certificate Factor
Up to	10,200 BU	20,400 BU	9,800 BU	4,800 BU	=	100%
The next	5,100 BU	10,200 BU	4,900 BU	2,400 BU	=	94%
The next	5,100 BU	10,200 BU	4,900 BU	2,400 BU	=	88%
The next	5,100 BU	10,200 BU	4,900 BU	2,400 BU	=	82%
Balance over	25,500 BU	51,000 BU	24,500 BU	12,000 BU	=	76%

After certification, the Secretary will adjust marketing certificates to meet determined need by increasing or decreasing the number of certificates by an equal percentage among every size producer, on a commodity by commodity basis. Total number and allocation of marketing certificates would be determined on each commodity separately.

Acres on which marketing certificates are based, if not planted to certificate crop must be put to a conserving use.

On-farm use of a program commodity will be deducted from the number of marketing certificates issued.

*** LIVESTOCK FEED ASSISTANCE PROGRAM**

When livestock market prices are below the parity price support level established for small grains, then livestock producers with annual gross sales below $1,500,000 would be eligible to buy up to $50,000 worth of grain from CCC inventory at a price equal to the parity level at which the livestock is valued or they could receive certificates of equal value.

Guidelines will be written to prevent abuse of program.

*** OVER-CERTIFICATE PRODUCTION**

If a producer who is in compliance with the program harvests more of a commodity than they have marketing certificates for, the over-certificate production may be:

(1) stored on farm for use in a subsequent year,
(2) donated to the CCC for famine relief, including, but not limited to, government administered relief programs,
(3) sold to the CCC for U.S. government food assistance or famine relief programs at not more than 50% of the loan rate, or
(4) sold to CCC for Farmer Commodity Reserve.

*** PLANTING OF NON-PROGRAM CROPS**

The Secretary may limit the acres of non-program crops if the Secretary determines that it is necessary (1) to maintain farm or ranch income; or (2) to minimize farming practices that degrade the environment.

*** PRICE SUPPORT**

Price supports on program crops shall be set at 75% of parity as established by USDA, with a 3% per year increase, up to 90% parity.

*** SUSTAINABLE AGRICULTURE**

A producer may participate in the low input sustainable agriculture (LISA) program by filing a five year farm plan based on provisions in the Low Input Technical Guide. Producers may appeal out of the LISA program after three years for reasons of undue economic hardship. Once they leave the program, they may not re-enter until the five year period is over. A producer's land may enter the LISA program at a rate of not more than 20% per year, or 200 total acres, whichever is larger. Producers whose entire farms qualify for the sustainable agriculture programs at the time the program goes into effect may enter their entire farm into the program.

Funds shall be appropriated for the Soil Conservation Service and local Soil and Water Conservation Districts for administering and staffing land and water restoration projects. Cost-share programs which will enhance soil fertility and/or water quality protection shall be instituted, including but not limited to planting of legume crops.

Improved farm practices, including crop rotation with seeding of legume crops would not result in the loss of base acres.

National low-chemical farming technical guides describing appropriate production systems would be developed by the USDA in cooperation with farmers and technicians with expertise in the hands-on experience of low-chemical sustainable farming. This guide would provide the criteria and guidelines for compliance in the sustainable agriculture program.

The Secretary shall call for and appoint a panel of experts to develop guidelines establishing criteria for the technical guides which will be developed at the regional or state levels.

This panel of experts, as well as state or regional panels shall be made up of nineteen persons: eleven farmers with demonstrated expertise in sustainable agriculture techniques; five USDA representatives, including ASCS, SCS and Extension Service, all of whom are involved with the low input sustainable agriculture program; and three representatives from non-profit sustainable agriculture research organizations.

No representative on the panel can be employed by or receiving grants from any agricultural input industry or any of these industries' non-profit research subsidiaries, within one year prior to enactment of this legislation.

Technical guides shall be completed within one year of enactment of this bill. The guides will clearly outline acceptable practices and techniques. For example, additional use of chemicals with no-till will not be considered a sustainable farming practice.

Economic risk of reduced income will be insured internally through the Farmer Commodity Reserve. Producers in the sustainable agriculture program will receive a higher percentage of recovery through the FCR.

Non-program crops would be included in the sustainable agriculture program after an affirmative vote in a producer referendum. Participation in the Farmer Commodity Reserve by non-program crop producers would be allowed by assessing a check-off fee.

* **PRODUCER COMPLIANCE**

Full Compliance -- Farmers would participate in a producer referendum which would require a 51% affirmative vote to require full compliance. If the initial producer referendum passes, the next referendum shall be held in 1996 and each fourth year thereafter. If the initial producer referendum fails, the next referendum shall be held the next year.

* **CROSS COMPLIANCE**

There shall be cross compliance of crops.

* **WORLD FOOD SECURITY AND INTERNATIONAL TRADE**

The Secretary of Agriculture is instructed to conduct trade negotiations with the other major exporting nations, to achieve international commodity agreements which would ensure that the U.S. retains its fair global marketshare, as defined by GATT (General Agreement on Tariffs and Trade) and that export prices remain equal to or above average costs of production of the exporting nations.

If the Secretary is unable to negotiate such agreements within such a reasonable period of time, no more than twelve months, then export restitutions, such as bonus bushels or marketing loans, shall be authorized to maintain U.S. marketshare at a level equal to the rolling average of the previous five years.

In order to ensure that the costs of these export restitutions do not rise above current agricultural program spending levels, a Food Reserve Coordinating Agreement would be negotiated through GATT. This agreement would require that all countries share the costs of maintaining global emergency food reserves, and that all exporting countries share the burden of production reductions whenever global reserves exceed agreed upon maximum levels.

These reserves will be effectively and totally isolated from the market.

To insure that such an international food reserve agreement can be effectively implemented, current GATT rules which specifically prohibit export dumping and which specifically permit import and export controls must be clarified to include value-added processed or competitive products and these rules must be uniformly and equitably enforced.

Special and differential treatment within GATT rules for developing countries cannot include the right to ignore normal GATT anti-dumping provisions.

All proposals to GATT which would give international agencies or their appointed experts the power to over-rule local, state, and federal government laws and regulations shall be specifically rejected

Additional provisions must be added to the GATT treaty which can insure that all environmental protection, food safety, and sustainable agriculture programs and incentives are explicitly acknowledged and are in no way, subject to prohibition or restriction by GATT.

* **IMPORTS**

Agricultural Imports: The Secretary of Agriculture shall, under the authority of Section 22 of the Agricultural Adjustment Act, examine and report to the President with respect to any imported articles that (1) increase the cost of conducting agricultural price support activities; (2) interfere with any program or operation undertaken by the Secretary; (3) reduce the quantity of products processed from agricultural commodities produced in the United States.

Labeling Imported Food: Any agricultural product or processed agricultural product that contains any imported ingredient that accounts for a significant portion of the product's value or volume must be marked to indicate the country of origin of the imported ingredients.

Limitations on Entry.: No agricultural commodity or product may enter the United States if the use of such chemical in the production, processing, or marketing of such article in the United States is prohibited by law. This applies to an agricultural commodity or product; either meat or a meat product, or a live animal used primarily for human food consumption which contains, or on which is present, any residue (or greater level) of any chemical prohibited by law in the U.S.

*** FARMER COMMODITY RESERVE**

A farmer commodity reserve (FCR) shall be established with available CCC stocks. If additional grain is needed to establish or replenish FCR inventory, the amount of deficiency would be included in the determination of need for the ensuing year. The FCR would also be replenished with over-certificate production, which would be sold into the FCR program at not more than 50% of the loan rate.

Producers who are in compliance with the ASCS commodity program and experience a loss below marketing certificate quota are eligible to draw "like" grain, of equal value from the Farmer Commodity Reserve. If no "like" grain is available within the marketing area, the producer could request equal value in certificates, in lieu of grain. The FCR benefits shall be targeted so that the larger the value of loss, the smaller the percentage of recovery.

Producers could draw from on-farm stored stocks, at which time storage payment would cease. Farmers drawing from commercial storage would pay storage for one year only. The value of grain drawn from FCR by a producer, in any one crop year, shall not exceed $50,000 total.

A farming entity with annual sales above $1,500,000 is ineligible to participate in the FCR program.

Storage bins must meet prescribed standards. Preference shall be given to utilize on-farm storage, then to commercial storage with an emphasis on reserves held in disaster prone areas. Rate for storage of FCR grain shall be the same for on-farm or commercial storage.

In the absence of scale tickets for farm stored grain, ASCS shall provide commodity measurement within a tolerance of 5%. Failure to meet a 5% tolerance will result in payment by ASCS to the farmer of triple damages. Farmers will pay no punitive damages due to ASCS miscalculations. A natural grain shrinkage is recognized.

FCR grain shall be isolated from export dumping.

The FCR program shall be administered by the ASCS, with an Independent County Oversight Board of five members, elected by producers to negotiate disputes. Their decision would be appealable to the state court serving that County or to the federal court at the farmer's choice and expense.

Members of the Oversight Board would be paid at the same rate, and from the same source as the County ASCS committee members. The Oversight Board would meet as they deem necessary, but subject to review by the Sec. of Agriculture. Should the Secretary disband the Farmer Commodity Reserve Oversight Board, the Secretary shall provide for further oversight.

Guidelines will be written to prevent abuse of the program.

* **CONSERVATION RESERVE PROGRAM**

A county-by-county socio-economic impact assessment of CRP shall be developed for those counties who have reached their 25% cap, before allowing expansion of the national CRP acreage goals. This assessment could be done by an entity other than ASCS, but should, at a minimum, assess the environmental costs and benefits, local tax consequences, and impacts on suppliers, main street businesses, schools and other community services.

Requirements shall be developed for haying and grazing on CRP acres, which would deduct from the CRP payment the value of hay and/or grass. In the event of damage to the grass stand, reseeding and maintenance costs would be borne by ASCS.

Any new CRP contracts shall provide sustainable agriculture options available to landowners in preparation for termination of the CRP contracts. Sustainable exiting provisions in new contracts shall be made available, upon request, to landowners with existing CRP contracts.

* **EFFECTIVE DATE**

This law shall become effective at the beginning of each program year for the 1991 crop season.

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NATIONAL FAMILY FARM COALITION

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NATIONAL DAIRY ACT

This discussion draft of a National Dairy Act is being proposed by a coalition of farmers from different regions of the country. The goal of this program is to establish a long-term supply management system which is controlled by farmers. The program is based upon the principles of fair market prices, targeting to family-sized farms, and regional equity.

The program is designed to establish an overall national supply management system which has general provisions that cover all farmers, and allow those regions that wish to do so to establish a regional program which is more detailed in its provisions and more closely controlled by farmers in that region. In drafting this proposal we believe that there is merit to designing a program that allows regions to exercise a fair level of local decision-making on key family farm targeting issues, while still preserving the basic goals in all regions of the country.

Nothing in this bill shall be interpreted in such a way as to impose any economic hardships on family dairy farmers whose total milk production in any consecutive 12-month period is less than either; a) 1.5 million pounds; or, b) less than 25 percent of the average production of his or her region, whichever is greater.

SECTION I: ESTABLISH A FAIR BASE PRICE

A. A national base pricing system will be established. The milk support price for milk produced within a producers annual base will be set a 75% of parity, and will increase by 3% of parity each year for the next five years. The Federal Milk Marketing Order System will remain in place. Price differentials will be reviewed by the National Dairy Board to determine if they accurately reflect current production and transportation costs.

B. No region or federal order system in the country will be allowed to develop and maintain a class of milk priced below the federal support price.

SECTION II: FARMER CONTROL THROUGH FARMER-ELECTED REGIONAL AND NATIONAL DAIRY BOARDS

A. Local Administration of Supply Management Programs

County ASCS Committees will be responsible for local administration of the regional supply management programs. Dairy producers in each county will elect a separate Dairy Committee who are active dairy producers. This Dairy Committee will be responsible for decisions concerning base allocation and appeals. Counties that have fewer than five active dairy producers shall join with other counties in order to compose an adequate Dairy Committee. This combined Dairy Committee will serve dairy producers in the combined counties.

This committee shall consist of three dairy farmers with one year terms, limited to two consecutive terms.

B. Farmers in each region will elect a regional Farmer/Consumer Dairy Board to develop and supervise the administration of programs and referendums under this Act. This Board will also monitor and review price increases at the retail level. This board shall

consist of six active dairy farmers and three consumers. Members of this board shall serve 3 year terms limited to 2 consecutive terms. The first election shall be implemented on a staggered basis. Nominations and voting will be based on ASCS procedure.

1) In order to protect their producers, regional Dairy Boards shall administer the national supply management program. Any additional provisions that are appropriate to their region must be approved in a referendum by a majority of producers in that region. No bloc voting will be permitted. Regional programs must follow strict guidelines to provide for family farm targeting, entry of beginning farmers and non-monetary transfer of base between farmers.

C. Representatives to the Regional Dairy Boards will annually elect, from their own ranks, a National Dairy Board, which will provide general oversight to the administration of the national dairy program. The National Dairy Board will monitor CCC and ASCS actions and can review changes in program regulations, will serve as the final level of appeal, and will annually determine the estimated production levels needed to balance national dairy production and demand. This board shall consist of one farmer member from each region. Funding for all dairy boards will be the responsibility of USDA through ASCS.

SECTION III: NATIONAL REGIONALIZATION AND REFERENDUM

A. The Secretary shall divide the country into not less than seven and not more than eleven regions based on historical production and marketing patterns, subject to the approval of the National Dairy Board once it is established.

B. The Secretary shall conduct a referendum within 30 days after the date of enactment, by secret ballot, of all milk producers engaged in milk production for commercial use, in the U.S. to determine whether a majority of dairy producers support the implementation of the national supply management program. No bloc voting will be permitted.

1) The continuation of the national base program will occur unless Congress approves a Joint Resolution of disapproval prior to July 1, 1995. This measure will not make it necessary for repeated national referendums of dairy producers on the program.

C. Production Year - The annual production year shall be based on a calendar year that begins on July 1 and ends on June 30th.

SECTION IV: ANNUAL BASE ALLOCATION

A. The National Dairy Board will make an annual determination of the amount of increase or decrease in production which is needed to meet the projected demand for dairy products in the next year, allowing for the required CCC purchases for existing food programs, government usage, and adequate supplies for food reserves.

B. Regional Production Bases - A regional production base will be established for each region based on the sum total of the national base of its producers.

1) For the first year of the program in case of increased or decreased national demand, regions will share the increase or decrease equitably. All future increase or decrease in demand will be allocated to the region where the increase or decrease is required. The term "Demand" is defined as the processor demand for raw milk in the region."

C. Initial Transition Period - To allow for appeals and special circumstances during the first two years of the program, 1% of the total national base will be allocated for use in appeals and emergency base adjustments. During this transition period, producers in regions which have held production within their regional base will not have their base reduced by more than this one percent.

D. Individual Producer Caps - Every region shall set an individual producer cap based on the economic and production needs of that region. Existing bases shall not be reduced, but no new or returned base will be allocated to producers whose existing base exceeds that cap.

SECTION V: ESTABLISHMENT AND TRANSFER OF PRODUCTION BASES:

A. Individual Bases - Each existing producer will receive a production base equal to either:

1) their previous year's production, or;

2) the average of their last five years of production, after eliminating the high and low years.

B. Transfer of Production Bases Between Producers

1) When a producer ceases their dairy operation their production base reverts to the county pool

2) Production bases may not be sold or leased except in regions where "class I monetary bases" have previously been established. Transfer of these class I bases must be in accordance with the provisions of this bill.

3) Producers in regions which are in a deficit supply situation may arrange for temporary base exchanges (up to one year) between producers in order to maintain a stable production base for that region.

C. Allocation of New or Returned Base - Allocation of new or returned base shall be in the following order:

1) Transfer of bases between family members shall not be restricted. Family members shall be defined as spouse, parents, siblings, children, and grandchildren.

2) First priority in allocation of base will be to "new milk producers" purchasing the production units (i.e., cows and/or farm). The term "new milk producer" means someone who has no milk marketing history and/or someone who has returned their base to the county pool.

3) To beginning dairy farmers in a county (at least 25% of all new and returned base must be offered to beginning milk producer). The term 'beginning milk producer' means a milk producer who is in the process of establishing a milk production operation and who has not assumed the full control and risk of such operation for longer than 5 years.

4) To existing producers in a county below the regional producer cap who apply for it equally.

5) An agricultural commodity producer in the county, except that in the case of a county in which at least 5 percent of the agricultural producers are members of socially disadvantaged groups (as defined by the Small Business Administration) and have farmers who are or have expressed interest in being "new or beginning milk producers", the county committee shall transfer to these producers a percentage of the milk marketing base that is at least equal to the percentage of the agricultural producers in the county who are members of the socially disadvantaged group.

6) If a county is unable to allocate new or returned base to producers within that county, that base may be allocated by the regional Dairy Board to qualifying producers within the state, and finally to qualifying producers within the region.

7) If a region is unable to allocate new base to qualifying producers within the region, that base will be distributed equally among other regions.

8) No new or returned base shall be allocated to non-farm corporations and non-farm absentee investors. A non-farm corporation is defined for purposes of this bill as anyone who has greater than 50% of their gross annual earnings derived from other than the sale of raw milk.

9) Dairy producers who participated in the Dairy Termination Program may reenter the dairy business as new or beginning dairy producers.

SECTION VI: OVERBASE PENALTY

A. Milk produced in excess of a producer's annual base will be assessed a levy which will reduce the actual price received for excess production to 25% of the support price.

B. The National Dairy Board shall have sole authority to increase the penalty costs which shall apply to all regions equally.

C. All support price penalties due to overproduction shall be directly allocated for purchase of dairy commodities for government food assistance programs.

SECTION VII: COMMODITY CREDIT CORPORATION/DETERMINATION OF INVENTORY.

In determining total national milk inventory levels, CCC purchases will be calculated on net CCC purchases pounds of milk equivalent less CCC pounds of milk equivalent sold either to the commercial market or to government programs. CCC purchases used in government programs will be considered a part of the "National Utilization".

SECTION VIII: FOOD RESERVES AND COMMODITY DISTRIBUTION PROGRAMS

Adequate emergency reserves of dairy products will be maintained to support necessary long-term and emergency food relief programs, and these reserves will not be considered to be surplus production. This level is determined to be not less than 3 billion pounds milk equivalent.

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Senator KERREY. Thank you.
The next witness is Leroy Watson with the National Grange.

STATEMENT OF LEROY WATSON, LEGISLATIVE REPRESENTATIVE, THE NATIONAL GRANGE, WASHINGTON, DC

Mr. WATSON. Thank you very much, Mr. Chairman.

INTRODUCTION

At one point in our history, agriculture and rural America were considered to be synonymous. We believed that nothing was so wrong with rural America that putting a profit back into the agricultural sector would not solve. We assumed there was a large similarity, in terms of size, structure, production and commercial motivation, among the vast majority of our nation's farms.

This may have been true 50 years ago, but it is far less true today. Today, the U.S. agricultural sector is far different than it was 50 years ago.

New agricultural technologies have brought about a revolution in production and marketing practices. Many commercial agricultural enterprises have rapidly converted from labor intensive to capital intensive farming operations. Innovative contractual and legal arrangements are transferring large amounts of risk as well as management authority from commercial farmers to integrated corporate processors. All levels of the government are becoming far more involved in agricultural decisionmaking. According to the 1987 Census of Agriculture, out of approximately 2.08 million farms in the United States, only 469 of those farms produce 10 percent of this nation's food and fiber. Fewer than 76,000 farms account for 50 percent of our agricultural production. In 1982, it took the combined production of the 105,000 largest farms to equal 50 percent of our nation's agricultural production.

The 1987 Census of Agriculture also tells us that 50 percent of the farms in this country have gross annual sales of less than $10,000. A few of these farms represent very small, traditional commercial farmers who are seeking to obtain the majority of their family income from the farm. However, the majority of these farms are not traditional commercial farms. They are either partially commercial or even subcommercial operations. The majority of these families' income is derived from off-farm sources. In the cases of many subcommercial farms, the family may not even expect their farm income to cover all of their farming expenses.

Caught between the largest commercial farms and the smallest, partially commercial and subcommercial farms are the family size, commercial farms. These farms represent the closest approximation to our nation's traditional vision of what American agricultural production should be. According to a 1986 report by the Congressional Office of Technology Assessment, this is also the farm structure that is most in danger of disappearing over the next few decades.

The National Grange believes it would be hopelessly counterproductive to try to substantially halt or change the technological, structural or social innovations in American agriculture policy. By desire or default, the majority of our nation's farmers are involved

in agriculture in ways that are vastly different from the ways their parents' or grandparents' generation farmed. We are no more likely to see a return to a homogenous family farm structure of agriculture, everybody farms in exactly the same way, than we are to see a return to the traditional U.S. nuclear family where the vast majority of U.S. households are all the same and consist of a working father, a housekeeping mother and two children with names such as "Wally" and "the Beaver."

The National Grange believes that successful farm policy in the 1990's will focus on creating the maximum amount of opportunities for individuals and families to be involved in agriculture. It will also promote the economic, social and cultural well-being of rural America. It must be policy that includes the interests of the non-farming public beyond their role as consumers of agricultural products.

REDUCING FARM PROGRAM PAYMENTS TO LARGE FARMERS

One of the most important farm policy decisions in the 1990's will concern the distribution of benefits from direct Federal farm commodity programs such as deficiency payments. The National Grange supports efforts to eliminate paying direct farm program benefits to the nation's wealthiest and largest agricultural producers. As farmers increase their production beyond certain modest points, their benefits from direct farm programs should be reduced, eventually to be eliminated.

The Grange does not believe there is a substantial public purpose gained by providing direct price and income support payments to this nation's largest and wealthiest farmers. There is, however, a substantial public purpose in providing direct price and income support to the over 96 percent of this nation's farms that are small to moderate in size. Farm income and price supports that are provided support every bushel, bale or pound of production and have failed to provide adequate market-based signals to large and expanding producers that the value to the market and to society of each subsequent unit of their production is diminishing. Our farm economy has compensated for large producers' unneeded production surplus by eliminating the total production base of small and medium sized family farms.

Eliminating direct farm program price and income programs for large farmers would redress this problem. By limiting program benefits to small- and moderate-sized farmers, Federal farm programs would assure both the nation and the world of a diverse and efficient agricultural sector in the United States. It would help maintain a critical mass of agricultural economic activity in rural America.

The policy questions of farm structure and opportunity go beyond the simple economics.

A declining quality of life in rural communities is perhaps the greatest loss that is surrendered by a policy of subsidized consolidation. Various sociological studies that have been done over the past two generations have shown that large-scale agriculture is associated with high levels of community residents who are living at or below the poverty level, low levels of community services and retail

outlets, concentrated community decisionmaking, and low community cohesion.

Senator KERREY. Mr. Watson, could I ask you to summarize, please?

Mr. WATSON. Yes, sir. The arguments, as laid out in greater detail in our written testimony, show that eliminating direct farm program price and income support payments for the nation's largest and wealthiest farmers will not cause a major problem in our agricultural policy.

THE WRITTEN TESTIMONY WE HAVE SUBMITTED TODAY CONSISTS OF OVER 74 SEPARATE POLICY RECOMMENDATIONS FOR THE 1990 FARM BILL ALONG WITH THE SUPPORTING ARGUMENTS

Beyond that, Mr. Chairman, the written testimony we have submitted today consists of over 74 separate policy recommendations for the 1990 farm bill along with the supporting arguments. It reflects our organization's best efforts to come to grips with the changing face of U.S. agriculture.

CONCLUSION

On behalf of the Worthy National Master Robert Barrow of the National Grange, I would like to thank the Agriculture Committee for the invitation to present the Grange's views on the 1990 farm bill. We also appreciate the consideration this committee and its subcommittees have extended to many of our State granges during the numerous field hearings that you have held. We pledge to you our support as your committee works to formulate sensible and progressive policies that will be part of the 1990 farm bill.

[The prepared statement of Mr. Watson follows:]

STATEMENT OF
THE NATIONAL GRANGE
BEFORE THE
SENATE COMMITTEE ON AGRICULTURE,
NUTRITION AND FORESTRY
APRIL 21, 1990

RE: 1990 FARM BILL

INTRODUCTION

At one point in our history, agriculture and rural America were considered to be synonymous. We believed that nothing was so wrong with rural America that putting a profit back into the agricultural sector wouldn't solve. We assumed there was a large similarity, in terms of size, structure, production and commercial motivation, among the vast majority of our nation's farms.

This may have been true 50 years ago when a larger percentage of the rural population was engaged in the production of food and fiber, but it is far less true today. Today, rural America is far more dependent economically on the manufacturing sector than it is on the agricultural sector. By 1984, 36% of the United States' rural population and personal income was accounted for by counties where manufacturing was the dominate economic force while only 11.5% of the United States' rural population and personal income could be found in the 602 largest agricultural counties. When we identify the number of counties where the agricultural sector accounts for a majority of their economic activity, the list will not include over 100 counties.

The United States' agricultural sector is also far different structurally now than it was 50 years ago. New agricultural technologies have brought about a revolution in production and marketing practices. Many commercial agricultural enterprises have rapidly converted from labor-intensive to capital-intensive farming operations. Innovative contractual and legal relationships are transferring large amounts of risk as well as management authority from commercial farmers to integrated corporate processors in many parts of the agricultural sector. All levels of the government are far more involved in agricultural decision making. According to the 1987 Census of Agriculture, out of the approximately 2.08 million farms in the United States, only 469 produce 10% of the food and fiber in the United States while less than 76,000 account for 50% of our nation's agricultural production.

While the concentration of agricultural production in the hands of fewer and fewer commercial farmers has received some attention in recent years, another, perhaps more interesting, structural change in the agricultural sector is occurring at the other end of the spectrum as well.

According to the 1987 Census of Agriculture, over 50% of the farms in this country have gross annual sales of less than $10,000. Some of these farms represent very small, traditional, commercial farmers who are seeking to obtain a majority of their

family incomes from their farms and are, therefore, living close to, if not in, a state of poverty. However, economic conditions and alternative employment opportunities over the past two decades have significantly reduced, but certainly not eliminated, the numbers of small, commercial farmers who are living at or near the poverty level.

By far, the vast majority of farms that gross less than $10,000 a year are not traditional commercial farms. They are either partially commercial or subcommercial operations. The majority of these farm family incomes are derived from off-farm sources. In the case of many subcommercial farms, the family does not expect their farm income to cover all of their farming expenses.

Research and data about the motivation of these small family farms is minimal. Most academic and government researchers ignore this part of U.S. agriculture. Traditionally, we have assumed that the motivations of the partially and subcommercial farmers are essentially the same as their larger, commercial-size cousins. These farmers have been characterized as being primarily beginning farmers who are building a commercial farm piece by piece or restructured farmers who are trying to rebuild a commercial farm after suffering a financial or natural disaster that forced a reduction in the size of their operation. By preference, if not by current choice or circumstance, small farmers were viewed as being homogeneous with medium-size and large farmers.

However, for many partially-commercial and subcommercial farmers, the economic/income motivations of commercial farms are far less important factors in their decision to start or continue farming. The desire to farm seems driven by choices of life style, recreation, or social responsibility rather than profit. In this context, farming is essentially the consumption of a way of life.

Caught between the largest commercial farms and the smallest, partially commercial and subcommercial farms are the family-size, commercial farms. These farms represent the closest approximation to our nation's traditional vision of what American agricultural production should be. According to a 1986 report by the congressional Office of Technology Assessment, this is also the farm structure that is most in danger of disappearing over the next few decades.

The National Grange believes it would be hopelessly counterproductive to try to turn back the clock and return to a golden age of agriculture. It would be equally unproductive to attempt to substantially halt the technological, structural, or social innovations in American agriculture. Agricultural policy for the 1990s must address the realities and must set appropriate goals for the 1990s. By desire or default, the majority of our nation's farmers are involved in agriculture in ways that are vastly different from the ways their parents' or grandparents' generation farmed. We are no more likely to see a return to a homogeneous family farm structure of agriculture in this country by the Year 2000 and beyond than we are to see the return of the traditional U.S. nuclear family where the vast majority of U.S.

families consist of a working father, a housekeeping mother and two children with names such as "Wally" and "the Beaver".

Having acknowledged that farm policy cannot reverse the course of time, it is not an admission that it is either impossible or inappropriate for farm policy to have goals and objectives. Farm policy is like the rudder of a ship that is making a perilous journey down a river that is full of rapids. Its skillful use makes the journey easier. Its poor use makes the journey rougher. Its misuse makes the journey dangerous.

The National Grange believes that successful farm policy for the 1990s will focus on creating the maximum amount of opportunities for individuals and families to be involved in agriculture. It will also promote the economic, social and cultural well being of rural America. It must be policy that includes the interests of the non farming public beyond their role as consumers of agricultural products.

The National Grange's specific recommendations for inclusion in the 1990 Farm Bill reflect our organization's best efforts to come to grips with the changing face of the United States' agricultural sector. Grange policy is developed through an intense, grass roots resolution process. This process, which was pioneered by the Grange over a century ago, is designed to measure the policy preferences of our members while giving them the maximum amount of control over the policy process. Variations of this resolution/policy process have been adopted by almost every farm and rural interest organization that has followed the Grange. Last year, at the National Grange's 123rd Annual Convention, which was held in Greensboro, N.C., delegates from around the nation debated 475 different policy resolutions that had been submitted for consideration by our state organizations.

DAIRY

The National Grange supports calculating all milk purchases and all government dairy product surpluses under a dairy price support program that uses total milk solids instead of only milk fat solids.

The National Grange supports efforts to freeze the current levels of dairy product imports until the GATT negotiations can successfully ban the export subsidies that have been placed on dairy products that are imported into the United States. It also supports efforts to remove the export barriers that are preventing the United States' dairy products from entering foreign markets.

The National Grange supports a national, voluntary milk supply management program that recognizes the regional differences in milk production, availability of milk to market and its percentage contribution to the CCC's surplus stocks.

The National Grange favors instituting a two tier pricing system in lieu of across-the-board support price reductions or other supply control options as a standby voluntary dairy supply control mechanism.

The National Grange supports subtracting any and all dairy products that are used for government programs from any future calculation of federal dairy surplus purchases that could trigger a support price reduction or supply control program.

The National Grange believes that if bovine somatotropin (bST) is approved for use by the Food and Drug Administration, new educational programs should be established that will assist any dairy farmer who desires an adjustment in their management techniques so they can quickly and efficiently maximize their use of bST technology. Furthermore, an educational program should be established that will assure consumers that milk from bST-treated cows is safe to drink. bST manufacturers should pay for this type of education, and the FDA and other federal agencies should be instructed to make their cooperation in this effort a top priority.

The National Grange supports reducing the number of federal milk marketing orders, but we strongly support continuing the federal milk marketing order program.

The National Grange continues to support the efforts of the National Dairy Promotion and Research Board.

TOBACCO

The National Grange supports continuing the current tobacco program and opposes any increases being made in the quota beyond a modest point so that tobacco growers can absorb the recent, and any future, tobacco quota increases.

TRADE

The National Grange supports the efforts of the United States' negotiators at the GATT negotiations in Geneva in substantially and progressively reducing the trade distorting subsidies and practices of governments around the world. We oppose any negotiated settlement that would substantially "trade off" one U.S. agricultural sector for another, or would "trade off" U.S. agricultural sectors, in general, for an overall agreement in other negotiating areas.

The National Grange supports the reauthorization and continuance of the United States' existing export programs and the import-limiting programs that are recognized under the April 1989 GATT framework for agricultural negotiations.

The National Grange believes that the 1990 Farm Bill should be crafted to meet the needs of U.S. farmers and should then be amended to conform to the requirements of a new GATT treaty, if necessary.

The National Grange urges the Federal Grain Inspection Service's adoption of a grain grading system that is accurate, repeatable, simple, fast and usable by all grain elevator operators, that will objectively describe the end-use quality of the grain, and that will discourage the introduction or reintroduction of foreign matter into grain shipments. This

system should include dockage that is rounded to the nearest tenth, and the amount of protein in the grain should be reported on a dry matter basis.

CREDIT

The National Grange supports the general continuance of the provisions that are contained in both the Credit Title of the 1985 Food Security Act and the Agricultural Credit Act of 1987.

The National Grange supports the mandatory use of mediation in cases of farm foreclosure.

The National Grange supports separating non agricultural lending programs from the Farmers Home Administration. They should be reconstituted as a separate rural development program. The FmHA should then be redirected as a farm lending agency only.

REDUCING FARM PROGRAM PAYMENTS TO LARGE FARMERS

The National Grange supports efforts to eliminate paying direct farm program benefits to the nation's wealthiest, agricultural producers. As farmers increase their production beyond certain modest points, their benefits from direct farm programs should be reduced, eventually to be eliminated. We also support efforts to tighten the existing regulations on farm program payment limits.

According to data from the 1987 Census of Agriculture, 469 farms account for 10% of the total agricultural production in the United States. Less than 76,000 farms account for 50% of all agricultural production. In his Fiscal Year 1991 Budget Report to the Congress, President Bush reported:

> "In 1987, for example, 30 percent of the $22.4 billion in commodity-related subsidies paid to individuals went to the four percent of farm operators with average net total cash incomes of more than $100,000 per year and with net worths of nearly $850,000."

One of the fundamental changes in the structure of agricultural production over the last half century has been the expansion of larger, commercial farms. Fewer and fewer farms are accounting for a majority of United States' agricultural production. The National Grange does not believe that there is substantial public purpose gained by providing direct price and income support payments to this nation's largest and wealthiest farmers. There is, however, a substantial public purpose in providing direct price and income support programs to the over 96% of this nation's farms that are small to moderate in size.

Farm income and price support programs that have equally supported every bushel, bale, or pound of production have been inefficient because they have supported the last units of production on large, expanding farms equally with the first units of production on all farms. These programs have distorted the distribution of farm input resources. By substituting

government programs for private risk management, large farms have increased their ability to command input resources, such as land, labor, capital and chemicals.

Farm programs fail to provide adequate market-based signals to large and expanding producers that the value to the market and to society of each subsequent unit of their production is diminishing. Our farm economy has compensated for the large producers' unneeded production surplus by eliminating the total production base of small- and medium-size family farms.

Eliminating direct farm program price and income programs for large farmers would redress this problem. By limiting program benefits to small- and moderate-sized farmers, federal farm programs would assure both the nation and the world of a diverse and efficient agricultural sector. It would help to maintain a "critical mass" of agricultural economic activity in rural America.

Rather than collapse and be driven from the market, or suddenly increase production to compensate for lost program benefits, large farms would instead focus on risk management and resource management rather than resource control in order to achieve prosperity. Even now, the commercial success of this nation's largest farms is not determined by their participation in farm programs. According to the USDA/ERS, farms that gross more than $500,000 per year receive the highest amount of direct farm income support payments on a per farm basis. At the same time, those payments constitute the smallest percentage of the total net farm income for any class of commercial farmers.

The policy questions of farm structure and opportunity go beyond simple economics. As William D. Heffernan, professor of Rural Sociology at the University of Missouri, states in his article "Can The Family Farm Survive?", "...the structure of agriculture has a bearing on the structure...the make up and vitality of the rural community."

A declining quality of life in rural communities is perhaps the greatest loss that is surrendered by subsidized consolidation. Various sociological studies that have been done over the past two generations have shown that large scale agriculture is associated with high levels of community residents who are living at or below the poverty level, low levels of community services and retail outlets, concentrated community decision making and low community cohesion.

In contrast, communities that have a large number of small- to moderate-size farms rate highest in indices of economic vitality, citizen involvement in community affairs, the number and strength of community institutions (such as libraries, schools, churches and Granges), and in economic support for agricultural input suppliers. The human and social values that have been learned by the large number of people who are engaged in operating a family-size, farm enterprise benefit our rural communities, which, in many instances, overshadows the economic value of an individual farming enterprise.

Still, large farms have their strong defenders when it comes to the question of their eligibility for participation in farm price and income support programs. Most of the reasoning in favor of retaining price and income supports for large farmers focuses on three major arguments:

1. Price and income support programs are actually farm resource "rental" programs and not independent instruments of public farm policy. Some economists and farm policy experts characterize farm price and income support programs as rent the federal government pays for using private farm resources. These arguments further assume that as rent, these programs take on a private, contractual nature. The addition of farm policy goals that do not conform to the traditional requirements of a rental contract, such as eliminating program benefits to farmers based on their size, is portrayed as a breach of contract.

   Farm programs often contain an expectation of action for payment. Some farm programs, such as the Conservation Reserve Program, are specifically structured on a contractual basis. However, the contract model too narrowly defines the operation and goals of price and income support programs. There is no clear consensus among those who are familiar with farm programs - participants, consumers, experts - that farm programs should be so narrowly construed. The legislative history of recent farm bills does not demonstrate that Congress ever intended farm programs to be administered primarily as private rent contracts.

   The National Grange does not believe that farm programs are, above all else, rental contracts. Program payments do not constitute rent in a traditional sense. Payments are based on aggregate farm production - not on the farm's resources the government wishes to control.

   Portraying farm programs as simply rent contracts is also dehumanizing. They infer that the interests of farmers and consumers must be put behind those of the government in controlling farm resources. It elevates the means of carrying out farm policy to the status of policy goal. It ignores the possibility that our nation may have additional non contractual goals for its farm policy. The National Grange believes that farm policy should reflect higher and more diverse goals than just that of government resource control. We also believe that a substantial portion of the non farming public supports our view.

2. Large farmers must participate in farm price and income support programs to achieve the supply management goals of farm policy, which, in turn, provide direct benefits to all farms - small, medium and large - and reduces the government's outlays in these years of tight budgets. Some critics of eliminating direct farm program benefits for large farmers assert that without the participation of large farms in farm programs, voluntary supply management would be impossible, or it would have to bear more heavily upon small-

and medium-size farmers who still participate in the program, or it would have a disastrous effect on the federal budget. Eventually, this commodity supply chaos could lead to imposing mandatory supply control formulas in order to replace voluntary supply management. Therefore, the costs, in terms of money and the loss of the non farming public's political support, of continuing to provide large farmers with price and income supports is justified.

There is no clear consensus that large farms would, as a group, decide to increase their production by an amount that is sufficient to cause severe disruptions to voluntary supply goals if they were excluded from participating in direct farm programs. Large farmers are not so dependent upon farm program payments that they would be driven by economic necessity to substantially increase production to compensate for their loss of program benefits. As former USDA Assistant Secretary John A. Schnittker testified before the House Subcommittee on Wheat, Soybeans and Feed Grains on March 1, 1990, "Acreage reduction requirements in the next few years appear to be modest, largely nullifying the argument, never quite valid, that payment limits will lead to surpluses as a few big farmers opt out of the program."

If large farms were denied direct farm program payments, their production options would include a wide variety of choices, including reducing their output to, once again, qualify for farm program benefits, diversifying their production among a wider variety of crops, livestock and markets to compensate for the loss of risk protection that farm program benefits provide, farm as they always have except without their farm program payments, leave farming, or finally, increase their production significantly. The overall effect upon supply or supply management goals would be mixed at best.

The National Grange also questions whether or not farm program participation is the only way to achieve supply management from large farms. We believe that market forces would effectively manage supplies for the large farmers who are denied the benefits of farm program price and income protection. This is especially true if the large farmers who were once denied access to farm programs had to operate several cropping seasons without the programs' protection. To some extent, the current farm programs socialize the risks but privatize the profits for our largest farmers. The Grange believes this program has helped to drive the subsidized consolidation of farms in this country, endangering the continued existence of moderate-size family farms and destroying the opportunity for hundreds of thousands of American families to farm. Farmers who must bear the full risk of 95 cents/bushel of corn will think twice before acquiring their neighbor's farm for its corn base acreage. If they don't, their bankers will.

Even if the risks of unprotected expansion do not deter expansion-minded farmers and their bankers, we still believe that the increased budget costs to the federal government to shield small- and moderate-size family farmers from the effects of commodity price uncertainty created by the unwarranted expansion of large farmers would be far more justifiable to the non farming public than the current program of financial rewards to the largest and wealthiest farms in the country.

3. Without the farm price and income support programs, large farmers will not participate in conservation programs. With the passage of a conservation title in the 1985 Farm Bill that tied some conservation programs to commodity program payments, critics of efforts to eliminate direct farm price and income support payments to large farmers assert that the conservation goals of the 1985 Farm Bill cannot be achieved without the widespread participation of large farmers in commodity programs.

This argument is more of one of convenience than of substance. This nation's agricultural resource conservation efforts date back more than a century. Significant increases in conservation efforts can also be attributed to the administration's of Presidents Theodore Roosevelt, Franklin Roosevelt, Harry Truman and Dwight Eisenhower. The 1985 Farm Bill's conservation provisions complemented, but did not replace, existing farm resource conservation programs that did not rely upon coordination with price and income support programs to achieve their goals.

Even within the 1985 Farm Bill's Conservation Title, not all of the programs require direct coordination with price and income support programs. The Conservation Reserve Program is structured as a long-term rental contract. Payments are not based on production (or even deferred production).

Eligibility is not directly tied to participation in other farm programs. The Conservation Reserve Program does include a $50,000 per year payment cap provision. Including a payment cap in the Conservation Reserve Program demonstrates that Congress never intended the achievement of conservation goals to preclude the achievements of farm structure policy goals.

In an era of budget consciousness, it is also fair to ask whether or not the taxpayers' funds that are paid to large farmers through farm price and income support programs is the most effective way to achieve our conservation goals. The National Grange does not think so. According to President Bush's FY1991 Budget Report to Congress, nearly $1 billion could be saved from commodity program payments by making farmers who have gross sales of $500,000 or more a year ineligible for farm program payments. A fraction of these funds could significantly increase the resources that are available for a wide variety of existing conservation programs. For example, according to the USDA's 1991 budget summary, $175 million, or 17.5% of the funds that are saved

by excluding large farmers from commodity programs, would double the proposed, or existing, funding for each of the following existing soil and water conservation programs: Colorado River Basin Salinity Control Program, Water Bank Program, Forestry Incentives Program, Emergency Conservation Program, the Agriculture Conservation Program's special water quality project, the Watershed Planning Program, the River Basin Surveys and Investigation Program, the Great Plains Conservation Program and the Resource Conservation and Development Program.

Will reliance upon increased educational efforts, technical assistance and research achieve a 100% compliance rate among U.S. farmers - large, medium and small - for conservation programs and goals? Probably not. However, tying conservation programs to commodity payments to large farmers leaves large compliance gaps as well. According to the 1987 Census of Agriculture, only about one-third of the farms in the United States receive direct commodity program payments. Commodity payments go to farms - large, medium and small - regardless of the severity or complexity of the 1985 Conservation Title problems they face. As more conservation-related restrictions are added to the commodity programs, the chances are that more and more large farmers will stop participating in commodity programs, anyway, to avoid compliance with the restrictions. The National Grange believes that our nation can successfully deny large farmers the direct benefits of commodity farm programs and then, by redirecting a small portion of the savings, achieve a comparable level of agricultural resource protection.

Eliminating direct farm program price and income support payments to this nation's largest and wealthiest farms will not violate any contract or agreement, will not jeopardize supply management goals and does not need to substantially effect farm resource conservation goals. Eliminating direct farm program payments to large farms will strengthen opportunities for more small- and medium-size family farms to prosper and survive. It would strengthen rural communities. It would assure our nation and the world of a diverse and efficient agricultural sector. It would substantially reduce the current policy of socializing risks while privatizing profits for large farms. It would increase and strengthen the level of support for progressive and sensible farm programs among the non farming public.

WOOL AND MOHAIR

The National Grange supports continuing the Wool and Mohair Title of the Food Security Act of 1985 with minor adjustments being made to target the benefits of the program to the small and medium-size commercial farmers.

PEANUTS

The National Grange supports continuing the Peanut Title of the Food Security Act of 1985 without reducing the poundage quota and price supports. We further support adjustments being made to

the program that will target the benefits of the peanut program to the small and medium-size commercial farmers.

WHEAT, FEED GRAINS, COTTON, RICE, SOYBEANS AND HONEY

The National Grange supports instituting a recourse marketing loan program for wheat, feed grains, cotton, rice, soybeans and honey in the 1990 Farm Bill with the loan rate being set at or near the average national cost of production.

The National Grange believes that loan rate adjustments, deficiency price adjustments, and voluntary acreage reduction programs should be designed to assure the United States that its carryover stocks will not be greater than 50% of the total average annual domestic use and foreign sales of each crop.

The National Grange supports cross compliance provisions (i.e., the requirement that if a farm is enrolled in one commodity farm program, all of the other commodities that are produced on that farm must also be enrolled in the appropriate farm program). However, we oppose implementing cross compliance when that implementation would substantially interfere with a farmer's ability to institute an approved soil conservation management program, an approved groundwater and surface water management program, or a Low Input and/or Integrated Pest Management Program. We further believe that the Secretary of Agriculture should have discretionary authority to waive cross compliance provisions in order to meet environmental goals or excessive tight supply situations.

The National Grange supports further efforts to target the benefits of federal farm programs to small and medium-size farmers. As farmers increase their production beyond certain modest points, their benefits from direct farm programs should be reduced, eventually to be eliminated. As a starting point, the National Grange believes that the current maximum limit of $50,000 in direct program payments, with a maximum payment of $100,000 per individual and $250,000 in crops that are under loan, should be maintained and strengthened.

The National Grange believes that each individual or family member who can demonstrate that they contribute legitimate and substantial financial, management and labor resources as part of a separate farm operation or as part of a legally drawn up family partnership agreement should be considered a separate "person" for the purpose of determining eligibility for farm program benefits. However, we oppose subdividing any existing farm or farm operation and subsequently using a farm partnership agreement for the primary purpose of qualifying additional individuals or family members as separate persons for eligibility for farm program benefits.

The National Grange supports allowing small farmers to have more than one (1) plot of five acres per farm that may be used to meet set-aside goals.

The National Grange supports the reopening of and using actual crop yield history in determining farm program benefits.

The National Grange recommends that regulations regarding the haying and grazing of set-aside acres be the same in all states. Use of set-aside acres should be restricted to the owner/operator of the farm and can only be used between normal growing seasons. The Secretary of Agriculture should be allowed to make exceptions as emergency conditions dictate.

SMALL FARMERS

The National Grange believes that the 1990 Farm Bill should include a separate title that is related to addressing the needs of the small farmers within the United States, especially those farmers who own partially commercial and subcommercial farms. According to the 1987 Census of Agriculture, one-half of the farmers in this country have annual gross sales of less than $10,000.00. Three-fourths of those farmers gross less than $50,000 per year.

The National Grange believes that a larger proportion of the direct financial benefits of federal farm programs should be "targeted" to small farmers.

The National Grange believes that the programs and missions of the USDA's Office of Small Scale Agriculture should be substantially upgraded. Currently buried deep within a cooperative state research service, the Office of Small Scale Agriculture is the only agency in the USDA that attempts to translate and direct the wide variety of services that are offered by the USDA to our nation's small farmers. These farmers need more research to be done regarding management techniques for part-time farming, alternative marketing opportunities, new financial management systems, appropriate technological innovations and general education. Furthermore, small farmers need a strong, high level, well funded ombudsman to fight for their needs within the USDA.

CROP INSURANCE

The National Grange supports continuing a voluntary federal crop insurance program. Crop insurance should be expanded to assure that farmers who produce all commodities have crop insurance services available to them through private insurance companies or a direct federal crop insurance program.

The National Grange believes that farmers who choose not to take advantage of crop insurance coverage that is available for their crops should be ineligible to receive supplemental, federal, disaster assistance when such assistance is made available.

The National Grange supports changing the basis for coverage on an insured crop from a percentage loss of normal crop basis to a dollar or unit amount of loss per acre basis.

The National Grange believes that crop insurance policies that are provided to farmers either through private insurance companies or a direct federal crop insurance program must use clear and simple language to describe all exceptions, limits and other provisions that concern policy coverage. We oppose including policy exceptions or limits as part of policy footnotes.

The National Grange opposes the continued use of area coverage by federal crop insurance programs. We support efforts to establish a realistic production base for each tract of land that is covered by crop insurance.

The National Grange supports making administrative changes in the Federal Crop Insurance Program to accelerate the processing and paying of claims.

MARKETING

The National Grange generally supports the provisions of the Marketing Title of the 1985 Farm Bill.

The National Grange supports the USDA's establishment of a national standard for the production, definition and identification of agricultural products that are produced without the use of agricultural chemicals that may be labeled as being "organic".

The National Grange supports efforts that are made towards commodity promotion and research. The National Grange believes that the mandatory assessment provisions of a commodity promotion program may go into effect provided a farmer vote occurs within a reasonable period of time. The National Grange also believes that provisions should be made to refund the assessments that are paid prior to a farmer vote for those farmers who desire them.

The National Grange supports strict adherence to a maximum 5% administrative overhead cost for any commodity promotion program. Furthermore, we believe that no commodity promotion funds that are collected by mandatory assessment should be used to directly support a commodity trade association or to finance any portion of a lobbying effort in any branch or level of government.

The National Grange supports the automatic opening of nominations to all federally-overseen commodity promotion boards of directors to include those nominations that are submitted by general farm organizations.

The National Grange supports collecting mandatory commodity promotion program assessments from all applicable agricultural imports.

CONSERVATION

The natural resources of the United States, such as soil, air, wildlife and water, are unique treasures. The National Grange has a long and proud history of supporting soil and water conservation programs for our nation's farms. Many of the founding members of the modern conservation movement, such as Gifford Pinchot, were active farmers and leaders in the Grange at one time.

As we consider some of the natural resource problems that our nation faces and the appropriate policies that should be included in the 1990 Farm Bill to address agriculturally-related natural resource problems, it might be well to consider the severity of

the agriculturally-related natural resource problems that other nations face today as well.

Around the world, natural resource problems abound that are created or exacerbated by poor, centralized government decisions regarding agricultural policy. In Europe and Japan, artificially high price supports have promoted the use of farm chemicals at two to three times the rate per productive acre as in the United States. In the Soviet Union, mismanagement of large scale irrigation projects is causing the drainage of a major lake on the Eurasian Steppes, which is creating an ecological disaster. In subsaharian Africa, cropping practices and the widespread removal of trees for firewood is increasing the risk of drought and desertification. In Brazil and other equitorial nations, the government promotion of "slash and burn" agriculture is causing the destruction of critical rain forests.

In the United States, we have natural resource problems of our own that may be traced, in part or in whole, to agricultural policies and practices. But our problems are far less severe and far more manageable than are the actual and potential ecological catastrophes that are cited above. The main difference between the United States' policies and those of other nations is that we have relied heavily upon the time tested benefits and responsibilities of private property ownership and management to provide this nation with one of the highest levels of resource protection of any nation on earth. Coupled with private ownership has been a 50-year tradition of incentive-based, cooperative programs, which are administered by state and local governments, in which farmers participate to redress environmental and conservation problems on our nation's farms. This system has served us well.

Prior to 1985, our national policy was to redress environmental and farming conflicts in such a manner that would benefit both farmers and the environment. Successful farming, as well as successful resource management, is, after all, dependent upon the wise, educated and voluntary stewardship of the men and women with whom we have entrusted the responsibility of producing our nation's food and fiber - our family farmers.

However, the philosophical focus of this nation's natural resource conservation efforts began to shift in the 1985 Farm Bill. We are subtly adopting a national farm/environmental policy that increasingly advocates that when farming practices are alleged to conflict with environmental goals, the preferred recourse is to stop people from farming.

Traditional, federal, soil and water conservation cost-share programs, such as the Great Plains Conservation Program and the Agricultural Conservation Program, have had their appropriations drastically reduced as scarce financial resources have been shifted to fund the programs that were created by the Conservation Title of the 1985 Farm Bill. As an alternative to the traditional cost-sharing programs, our new philosophy is to pay people not to farm when they are accused of conflicting with their environment. This is the rationale that is behind the Conservation Reserve. Another approach is to use the selective threat of economic duress to coerce farmers to leave farming or surrender a large portion of

their managerial decisions to the federal government. This is part of the rationale that is behind the swampbuster/sodbuster, conservation compliance and the FmHA's Conservation Easement programs.

There is undoubtedly a clear public policy rationale in assuring that farm policy and natural resource conservation policy goals do not conflict. Sending farmers differing signals through price and income support programs in order to produce surplus crops on environmentally-sensitive land is poor public policy. The Grange supports efforts that will reform the farm program commodity base system so that it will take into account cropping and management practices that would enhance the environment. We also support taking a fresh look at the swampbuster/sodbuster and conservation compliance programs in order to inject a greater degree of flexibility into those programs. For example, the penalty for sodbusting one acre (loss of all federal farm program benefits) is the same penalty for sodbusting 10,000 acres. Once you start sodbusting, you might as well go on forever. Conversely, once you've sinned and have fallen from grace, even as a minor sodbuster, total redemption is difficult to achieve.

Yet, for all the possibilities for fine tuning farm policy and natural resource conservation policy goals, the National Grange believes that, in 1990, Congress should reestablish flexibility, cooperation, and voluntary action as the cornerstones of our nation's agricultural, soil, water and air conservation policies. We believe that individual farmers, rather than the federal government, should be recognized as the leading force in conserving farm resources. We support reestablishing incentive-based approaches to the problems of agricultural pollution and placing greater emphasis on education, research, technical assistance and financial incentives before new alternatives are employed that are based on coercive strategies.

We support delegating to the states the authority to develop and implement agricultural resource management plans that are responsive to local community needs and conditions. Such plans should be use based and should account for the existing, as well as planned, resource use. They should exclude non-attainable goals, such as absolute non degradation. They should also provide for input from the farming and conservation communities as well as from individuals. They should be flexible enough to protect a farmer's legitimate economic interests, including property rights. Finally, a weighing of costs vs. benefits for innovative proposals should be part of any sensible resource management policy.

The federal government's role should be to develop the broad standards for state and local natural resource planning. The federal government must also provide state and local governments with technical assistance and the financial resources with which to implement and carry out natural resource management plans. Those state and local governments that have already proceeded with locally-based, natural resource management planning should be credited for those efforts.

Continued emphasis on centralized coordination with farm programs in order to achieve our natural resource protection goals

is conservation on the cheap. The preservation of valuable natural resources requires public investment - not just coordination. With only about one-third of this nation's farmers receiving direct farm program payments, farm program-based conservation affects only a patchwork quilt of our farm resources. Increasingly strict coordination between direct farm programs and natural resource protection may lead to lower levels of participation in direct farm programs, fretting away the coordination and leverage that centralizing natural resource protection was supposed to achieve.

No nation that currently faces a major agricultural resource conservation problem ever deliberately intended to create that problem as a by product of agricultural policy. Those problems still exist. Our nation has avoided major ecological farm disasters by emphasizing a policy that relies upon the wise stewardship of farmers who own and manage their property. We have created a decentralized voluntary system to provide education, research and technical assistance to achieve natural protection resource goals on farms. Reestablishing flexibility, cooperation and voluntary action as the cornerstones of our nation's agricultural resource conservation policy is the best method by which to assure that our nation maintains the highest level of agricultural resource protection of any nation on earth.

CONSERVATION

The National Grange supports continuing, but not expanding, the Sodbuster, Swampbuster, Conservation Reserve and Conservation Compliance provisions of the 1985 Food Security Act.

The National Grange supports the exemption of up to two acres per farm from the current sodbuster provisions in order to allow for the planting of high value, labor-intensive crops.

The National Grange supports exempting each individually-defined wetland that contains less than one and one-half acres from the swampbuster penalty provisions.

The National Grange supports creating a special interagency federal commission that will establish uniform definitions of the physical conditions that constitute a wetland. These definitions must be used by all federal, state and local agencies that have authority over matters that are related to wetlands on farms, including the U.S. Soil Conservation Service, the U.S. Fish and Wildlife Service and the U.S. Army's Corps of Engineers.

The National Grange supports requiring all federal agencies that have authority over matters that are related to wetlands on farms to revise their permitting procedures to recognize and accept all appropriate conditions that are met by a farmer to meet the requirements of a permit for one agency to be sufficient to meet the conditions of the other agencies as well.

The National Grange supports authorizing direct, federal financial assistance in order to compensate farmers for the value of the property taxes they must continue to pay on any property that the farmers may own and whose use is severely restricted under federal farm program wetland provisions.

The National Grange supports the CRP's inclusion of land that has a high potential for groundwater contamination from normal and accepted farm management practices.

The National Grange supports allowing CRP land, where appropriate to the goal type, to be used for raising pulpwood without a reduction in CRP's rental payments.

The National Grange opposes any relaxation in the maximum amount of $50,000 per year in CRP payments to any person, including incidents of involuntary land acquisition, such as through inheritance or foreclosure.

The National Grange believes that the standards for any soil conservation management plan, groundwater management plan, or Low Input/Integrated Pest Management Plan must be farm-specific and must use only the best generally available management practices. We oppose the imposition of any absolute nationwide management standard (such as "t" for soil conservation) for any farm conservation or environmental protection program where a farmer could lose his/her farm program benefits.

The National Grange supports the adoption of a new ground and surface water quality control program under the Conservation Title of the 1990 Farm Bill. Such a program should focus on technical assistance, financial assistance, increased coordination among federal, state and local agencies, educational programs and individual farm management plans. It should also include comprehensive well testing and other appropriate research programs.

The National Grange believes that the traditional soil and water conservation programs with both technical and financial assistance, such as the Agricultural Conservation Program, should be revised and increased to pre 1985 funding levels. Future conservation and environmental programs that emphasize financial assistance, technical assistance and educational efforts should be considered before any programs are deliberated that are based on coercion in order to achieve their goals.

The National Grange supports the designation of an agricultural natural resource ombudsman who would report directly to the Secretary of Agriculture and who would have the authority to oversee, coordinate and harmonize the agricultural, natural resource missions of the USDA, the EPA, the FDA and the Army's Corps of Engineers.

AGRICULTURAL, RESEARCH, EXTENSION AND TEACHING

The National Grange generally supports the provisions of the Agricultural Research, Extension and Teaching Title of the 1985 Food Security Act.

The National Grange supports significantly increasing the percentage of federal agricultural research funds that are allocated on a competitive basis and supports reducing the percentage of research funds that are allocated by direct congressional appropriations to specific institutions.

The National Grange supports increased research efforts towards the development of the best and humane management practices in the care and maintenance of agricultural and companion animals.

The National Grange supports appropriating more funding to develop new alternative crops, such as Jojoba, and new uses for alternate and existing crops.

The National Grange supports developing improved educational efforts for the safe use and disposal of farm chemicals. Further federal educational efforts should be directed to providing the consumer with greater confidence that farm chemicals are being used properly in the production of food without measurable risk of contamination to food or the environment.

The National Grange supports increased research on biological methods of pest control.

The National Grange supports significantly increased research being done on Low Input Sustainable Agriculture (LISA) practices. Data should be developed that will determine which practices will improve groundwater, soil, air, and other environmental factors while maintaining or improving crop yields and the quality of agricultural products. Special emphasis should be given to finding the most effective way to educate existing farmers about ways in which they can integrate LISA practices with their current farming operation.

FOOD STAMPS AND RELATED PROVISIONS

The National Grange generally supports continuing the Food Stamp and Related Provisions Title of the 1985 Food Security Act.

The National Grange supports allowing state and local governments to levy sales taxes on food that is purchased with food stamps provided that such sales taxes are the normal practice for food sales in that state or locality.

The National Grange opposes any further expansion of the Commodity Letter of Credit (CLOC) programs in place of direct commodity distribution programs.

RURAL DEVELOPMENT

The National Grange believes that the 1990 Farm Bill should contain a title that addresses rural development.

The National Grange believes that the agricultural sector, particularly small and medium-size farmers, should be recognized as being an important component of any rural development strategy.

The National Grange believes that the Farmers Home Administration's non agricultural lending programs should be separated from the FmHA and should be reconstituted as rural development programs.

The National Grange believes that rural development should focus on the strengths of the individual rural community and the efforts of these communities to build their own appropriate development strategy. We oppose the large scale use of federal funds to attract large manufacturing plants to locate in rural areas when they would not have otherwise done so.

The National Grange opposes using efforts to "urbanize" rural areas as solutions to rural problems (for example, the massive use of sewer and water development projects to support high density commercial, industrial, and residential areas in rural communities). Furthermore, rural communities that are facing development pressures from nearby urban areas should be allowed to refuse any federal or state development assistance they deem proper without penalty or prejudice.

The National Grange supports increased efforts to raise the quality of rural education opportunities, including creating new job training programs.

The National Grange supports increased funding from the federal Highway Trust Fund (HTF) for the planning and maintenance of county, town and township roads and bridges. We further support the appropriation from the HTF of minimum state allocations for rural mass transit systems.

The National Grange supports efforts to upgrade the communication and information infrastructures in rural communities to meet the standards that urban residents expect.

The National Grange believes that rural electric cooperatives have an important role to play in rural development efforts. However, we oppose the development of a rural development program that would substantially disadvantage or exclude rural communities that are not served by a rural electric cooperative.

The National Grange believes that the minimum availability of health care in rural areas is necessary for successful rural development and supports pilot programs in order to determine the best mix of affordable health care resources in rural areas.

Senator KERREY. Thank you very much, Mr. Watson.

And last, and most importantly, Elaine Stuhr, from Bradshaw, Nebraska, with Women Involved in Farm Economics (WIFE).

STATEMENT OF ELAINE STUHR, NATIONAL PRESIDENT, WOMEN INVOLVED IN FARM ECONOMICS, BRADSHAW, NE

INTRODUCTION

Ms. STUHR. Thank you, Mr. Chairman. I would also like to thank Senator Kerrey and Senator Conrad for holding the hearings out in our area in the last couple weeks. As national president of WIFE, I want to thank you for the opportunity to present our views today.

WE FEEL THE AGRICULTURAL BUDGET SHOULD NOT BE CUT FURTHER

To keep rural communities vital, we feel the agricultural budget should not be cut further. Those involved in production agriculture need a standard of living comparable to other segments of our society. Why is the average age of the American farmer getting older? Why are not our young people returning to the farm? It is a matter of economics.

I will address several issues that are of utmost importance to our members and a summary of our WIFE policy is attached for your information.

TARGET AND LOAN PRICES

In relationship to target and loan prices, WIFE supports an escalator clause to be part of farm legislation so that loan and target prices may go up in direct proportion to the cost of production. We would also like to eliminate the Findley amendment.

FLEXIBILITY

As far as flexibility, flexibility seems to be a popular buzzword, and we support a consistent and constant NCA normal crop acres, but are also concerned about too much flexibility, which could impact other commodity inventories and prices. We oppose the decoupling concept in regard to flexibility.

GRAIN QUALITY

In grain quality, we encourage U.S. grain standards to be set to equal or surpass the standards of our worldwide competitors. We applaud the efforts that have been done but more work does need to be done in this area.

FEDERAL CROP INSURANCE

Federal crop insurance is a management tool that can be utilized by the producer to minimize his risk; however, the current program must be made more beneficial to the producer and less complex. It must pencil out as an effective way to cover potential crop loss due to weather and uncontrollable factors. There is currently a problem with insuring grain sorghum and we hope that this can be addressed particularly by the Senators. The price disparity is of a great concern to sorghum growers, especially since last year's participants are automatically enrolled in the 1990 program. This also

illustrates the reason that you do not get a large number of voluntary participants in the FCIC program.

STORAGE

WIFE supports legislation that equalizes storage rates paid on CCC owned grain whether it be stored by farmers or commercial storage operators.

We support the on-farm Farmer-Owned Reserve (FOR).

AG POLICY

We support a long-term agricultural policy based on management of inventories to meet domestic and export needs based on bushel allotments, not acres.

RECOGNITION OF THE FARM WIFE'S STATUS

One issue that our organization has been particularly working on for the last several years is the recognition of the farm wife's status. And we are asking for your support to recognize a farm wife as a separate person in regard to farm program participation. We are working for a legislative change in the ASCS regulation, title 7 CFR section 795.11, which states, "A husband and wife will be considered one person in determining crop payment limitations." The present law discriminates against the wife who works side by side with her husband in the daily operation of the farm. It denies them the "person status" that others, including relatives, can currently qualify for in regard to farm program payments.

Last July, a bill, H.R. 2973, was introduced and it's called the Farm Spouse Fairness and Equity Act of 1989. We are working on this bill hoping for it to become law and be included in the 1990 farm bill and ask for your support.

WIFE is not asking that every farm wife be given a payment limitation. We are asking that a farm wife who meets the criteria established for other individuals be given a "person status" and be eligible for those benefits. We are also asking that if a farm wife acquires a farm, she be allowed to keep that her sole and separate property.

Women are acquiring land and farm operations after marriage such as our past president. She was gifted land from her parents when they retired from farming. She has not been allowed by ASCS to keep that as her sole and separate farm operation, but is required to commingle it with her husband's operation.

If a father and a son, or a father and a daughter can meet the established criteria, they qualify for "separate person status." It is just the farm wife who has no opportunity to hold a "person status". The present law seriously puts farm wives at an economic disadvantage and discourages women from becoming involved in farm operations.

One reason that USDA possibly has opposed this bill is because of the cost. We do not feel that is really of great concern, but feel that the ASCS should tighten its review process and open up to eligibility to people who are deserving farm owners and operators.

Senator KERREY. Elaine, could I ask you to summarize, please?

CONCLUSION

Ms. STUHR. Yes. This denial to recognize a farm wife as a person is actually a marriage penalty. We are asking if divorce is the answer? We really hope that you will consider this issue and include it in the 1990 farm bill. When drafting the farm bill remember that production agriculture is the foundation of this nation and provides the building blocks for additional growth and prosperity of this country. Thank you.

[The prepared statement and attachments of Ms. Stuhr follow:]

WIFE Women Involved in Farm Economics

TESTIMONY BEFORE

THE SENATE COMMITTEE ON

AGRICULTURE, NUTRITION and FORESTRY

MARCH 21, 1990

WASHINGTON, D.C.

SUBJECT: 1990 FARM BILL

PRESENTED BY

ELAINE STUHR
NATIONAL PRESIDENT

WOMEN INVOLVED in FARM ECONOMICS

Route 1 Box 224
Bradshaw, Nebraska 68319

SENATE COMMITTEE on

AGRICULTURE, NUTRITION and FORESTRY

HEARING on the 1990 FARM BILL

MARCH 21, 1990 - WASHINGTON, D.C.

Oral and Written Testimony
by
Elaine Stuhr, National President
Women Involved in Farm Economics

Thank you Mr. Chairman and Committee Members.

I am Elaine Stuhr, National President of Women Involved in Farm Economics. I am from Bradshaw, Nebraska and a partner with my husband in our family farm operation. We have been farming for thirty years and are primarily grain producers raising irrigated corn, grain sorghum and soybeans. I am involved in the day to day activities of our business from marketing and book-keeping, to irrigating, driving tractor and management decisions related to our farming operation.

WIFE is a grassroots organization committed to improving profitability in production agriculture through education, legislation, communication and cooperation. We believe a strong secure economy in the United States is directly related to a strong healthy economy in agriculture. We feel improving profitability on our farms and ranches is essential for maintaining and improving the quality of life in this nation. The availability of food is the key to our national security and our standard of living. WIFE is continually striving to develop strategies and policies that will improve the economic prosperity of agriculture.

We endorse the spirit of the 1985 Food Security Act which maintained an economical and abundant food supply for the American people while providing some income protection for producers. Like other businesses, AGRICULTURE MUST BE PROFITABLE IN ORDER TO SURVIVE!!

The United States has an agricultural system that is the envy of the world. In the 1950's nearly 3% of the entire U.S. budget was spent on farm programs. Today in 1990, farm programs take less than 1% of the total budget. Agriculture is our nation's most vital renewable industry. It provides 70% of all raw materials used and because all manufactured products (new wealth) begin as raw materials this makes agriculture the most wealth producing unit in our economy. The U.S. food and fiber system represents 17% of our nations GNP and plays a very positive role in the balance of trade. The United States must not take their agricultural production system for granted.

We feel the agriculture budget should not be cut! Those involved in production agriculture deserve a standard of living comparable to other segments of our society. Why is the average age of the American farmer getting older? Why aren't our young people returning to the farm? It is a matter of economics! Let me share an illustration--We are the parents of three children, all are college graduates as were my husband and myself and yet none of our children are involved in farming as a profession. This is an example of what is happening in rural America today! At present rural (farm) incomes are far below urban incomes. Drabenstatt and Gibson in the book Rural America in Transition stated, "Real capital income in farm dependent counties has declined annually since 1973. Production agriculture requires large capital investments, high input costs and in return receives low prices at the market place. In 1988, farmers spent 7.5% more than in 1987 and yet overall inflation was only 4.4%. In 1989 farm expenses were projected to rise 6-8% and yet government payments were 25% less than in 1988.

The 1990 Farm Bill will address many areas and WIFE has positions that cover many of these issues. A summary of WIFE's Policy is attached for your information.

Several issues that are of utmost importance to WIFE members are:

Target and Loan Prices

We would like to see target prices frozen at the 1990 level with consideration for inflation. Farmers are one segment of the American population that does not get a cost of living increase to compensate for inflation (also called increased cost of production). Please bear in mind, that if the target price for wheat is frozen at $4 and the inflation rate is 5% for each of the next five years, the purchasing poser will only be $3 by 1995. WIFE supports an escalator clause be part of Farm Legislation so that loan and target prices go up in direct proportion to the cost of production. We would also like to do away with the Findley Amendment.

Flexibility

Flexibility seems to be a popular "buzz word" for the 1990 Farm Bill. We support a consistent and constant NCA (normal crop acres). Each farmer would be able to make his planting decisions based on what best suits his land, farming practices and conditions. However, we are also concerned about too much flexibility which could impact other commodity inventories and prices. We feel that permanent grass and trees may qualify as set-aside and should not result in loss of NCA. Grass acres should not be grazed, hayed or harvested. We oppose the decoupling concept.

Grain Quality

We encourage U.S. grain standards to be set to equal or surpass the standards of our world wide competitors. We applaud the efforts for the improved standards that are being explored.

Federal Crop Insurance

Federal Crop Insurance is a management tool that can be utilized by the producer to minimize his risk; however, the current program must be made more beneficial to the producer and less complex. It must pencil out as an effective way to cover potential crop loss due to weather and uncontrollable factors. (WIFE's recommendation is attached.) There is currently a problem with insuring grain sorghum. The Federal Crop Insurance Corporation (FCIC) has set the high level price elective of grain sorhum for 1990 at $1.65 per bushel, or $2.95 per hundred weight. This figure is 31% below the 1989 high level price of $2.40 per bushel, or $4.29 per hundred weight. This "new" high price elective is 21% below the historical price elective relationship between corn and grain sorghum. (If the historical relationship of sorghum to other feed grains was taken into consideration for 1990, the high level price elective for grain sorghum would be at $2.10 per bushel, or $3.75 per hundred weight.) This price disparity is of great concern to sorghum growers, especially since last year's participants are automatically enrolled in the 1990 program. This also illustrates the reason that you do not get a large number of voluntary participants in the FCIC program-- the rules keep changing and not to the benefit of the producer. This matter needs to be corrected immediately!

Storage

WIFE supports legislation that equalizes storage rates paid on CCC owned grain whether it be stored by farmers or commercial storage operators.

We support the on-farm Farmer Owned Reserve (FOR). We feel most farmers have the ability to store and maintain large quantities of grain on their farm due to past investments in grain storage which was encouraged by former government policies. Farmer owned storage also costs the taxpayers the least amount of expense when compared to the commercial storage fees.

Transportation

Transportation is an important part of the farming business. We maintain that most producers pay transportation costs on all it produces and all it uses without being able to pass those costs on. The problem of cargo preference continues to be of great concern. The requirement that 75% of our exports be shipped on U.S. flagships adds greatly to the cost of our grain. It makes purchasing U.S. grain less attractive to potential customers. In order to keep our exports competitive we urge the law be changed to just 50% of government impelled shipments (excluding Export Enhancement, TEA, PL 480 and other commercial export programs).

Undersecretary for Agricultural Affairs

We believe an Undersecretary for Agricultural Affairs should be appointed in the State Department to be an advocate for agriculture and a watchdog for fair trade practices.

Ag Policy

We support a long-term agricultural policy based on management of inventories to meet domestic and export needs based on bushel allotments not acres.

RECOGNITION OF THE FARM WIFE'S STATUS

WIFE members are asking for your support to recognize a farm wife as a "separate person" in regard to farm program payment limitations. We are working for a legislative change in the ASCS regulation, Sec. 7 C.F.R. 795.11 which states, "A husband and wife will be considered one person in determining crop payment limitations." The present law discriminates against the wife who works side-by-side with her husband in the daily operation of the farm. It denies them the "person status" that others, including relatives, can currently qualify for in regard to farm program payments.

In June of 1987 WIFE filed a suit against the United States Department of Agriculture regarding the ASCS 795.11 regulation. In March of 1988 Judge Joyce Hens Green, United States District Court, District of Columbia, ruled in favor of WIFE. Judge Green held that the regulation treating a husband and wife as "one person" clearly violated statutory directives of Congress as set forth in various farm bills dating back to 1970.

The USDA appealed that decision and on February 7, 1989, oral arguments were heard in the U.S. Court of Appeals, District of Columbia Circuit, Washington D.C. On June 2, 1989 the U.S. Court of Appeals ruled in favor of USDA.

On July 21, the bill H.R. 2973, the "Farm Spouse Fairness and Equity Act of 1989" was introduced by Representative Ron Marlenee of Montana. When introduced the bill had twelve bi-partisan co-sponsors. WIFE is working for this bill to become law and to be included in the 1990 Farm Bill.

WIFE is not asking that every farm wife be given a payment limitation. We are asking that a farm wife who meets the criteria established for other individuals be given a "person status" and be eligible for program benefits. We are also asking that if a farm wife acquires a farm, she be allowed to keep that her sole and separate property.

A provision adopted by Congress in 1987 as part of the Budget Reconciliation Bill corrected a portion of the regulation when it gave a farm wife "status position" if she acquired her land previous to marriage. It did not address the farm wife who is actively engaged in a farm operation.

Women are acquiring land and farm operations after marriage such as our past president, Naioma Benson. She was gifted land from her parents when they retired from farming. She has not been allowed by ASCS to keep that as her sole and separate farm operation but was required to commingle it with her husbands operation.

If a father and son or father and daughter(if the daughter is not married to a farmer) can meet the established criteria they qualify for "separate person status". It is just the farm wife, who has no opportunity to hold a "person status". The present law seriously puts farm wives at an economic disadvantage and discourages women from becoming involved in farm enterprises.

Why is it when two brothers farm together as working partners each have "person status" and when a farm wife is a working partner in the farm operation she cannot have "person status"? It seems husband and wife are to be considered as "one person" only in this USDA regulation. Why, if husband and wife are "one person" do we need two social security numbers, two driver's licenses and two income tax signatures? Farm wives are required to sign all operating loans and are just as responsible for those debts as their husbands. WIFE FEELS THE RULES SHOULD BE FAIR ACROSS THE BOARD. Women should not be penalized for marrying their partners in work. This regulation echoes of days past when women couldn't vote, hold office, inherit land or own property. It's immoral and appalling that unmarried men and women living together can get two program payments.

The second part of the bill deals with the "treatment of multi-year program contract payments." In the event of a transfer of ownership(in event of death or upon disability of the donor) the Secretary of Agriculture shall continue to make full payments. These payments shall not exceed the amount to which the previous owner was entitled. This technical amendment will result in no increased expenditures by USDA on existing multi-year program contracts (CRP for instance) but will simply continue to honor the multi-year contract for the farm.

A Colorado woman and her husband had signed a dairy herd buyout contract. Her husband has since died. The USDA denied her the buyout payments since her husband had died. She had to get a lawyer to correct the situation. Why should she have had to?

One of the reason's USDA has opposed this bill is because of the cost. It is hard to get a handle on the exact costs, but it will be much less than USDA is currently wasting because of mismanagement of current payment limitations. A recent report from USDA's Inspector General's Office submits that ASCS made payments to many people who were not entitled to them. In fiscal 1987, overpayments totaled about $66 million. ASCS should tighten it's review process and open up eligibility to people who are deserving owners and operators.

H.R. 2973 will allow a spouse who is actively engaged in providing management or labor to a farming operation to be eligible for a full farm program payment limitation as a "separate person" similar to existing law which permits such designations for other family relatives who participate in the operation. This denial to married farm wives is actually a "marriage penalty". Is divorce the answer?

Secretary Clayton Yeutter has designated March 1990 as National Women in Agriculture Month and states in his proclamation "Women have always occupied a unique place in American agriculture throughout history...Women have been vital in the growth and development of the nation's agriculture....The family farm is the foundation of American agriculture and women have played an essential role in the survival of this system. Since early days,women have been involved in all phases of agricultural production...including plowing,planting, weeding, harvesting, managing and marketing of agricultural products.... with women playing a vital role in maintaining this system (family farm);...women are working partners in the family farm, and these roles should be recognized;...." If the secretary of agriculture truly feels this way about the role of farm women, we would hope he would encourage the ASCS to work with us and not against us on this issue.

Research

We encourage more research into new uses for our agricultural commodities. We encourage greater use and production of alternative energies from agricultural commodities. The use of ethanol could be one major solution to ease the trade deficit, air pollution, world hunger and U.S. employment.

Environmental Concerns

Farmers and ranchers are the "original environmentalists". We are stewards of the soil and dependent upon the environment for our livelihood. We have the most to lose if that environment is not protected.

We support conservation and environmental programs which reflect agriculture's ongoing concern for the continued productivity of the land and nutritious food for the consumer. Our definition of sustainable agriculture is an agriculture system that will allow profitability and competitiveness while sustaining the environment (land, water, air) its people and its communities.

We recognize the importance of safe water and support reasonable means to prevent degradation of surface and ground water. Modern technology has given us the ability to find out what is in our water but it has not given us the ability to determine what is natural and what is man-made. High school chemistry taught us that nature is made up of chemicals and minerals. Therefore we will never have an absence of chemicals and minerals in the water or food supply.

No one benefits from scare tactics that are being used today regarding the safeness of our food and water supplies. A realistic approach in balancing the benefits and the risks is a must and decisions on these issues must be on a risk/benefit ratio. Decisions must be based on facts and not on emotions. We want to emphasize that our safe and abundant food supply is the key to the standard of leving we have today. WIFE believes in education of ourselves and others and in working together in responding to the challenges we face in regard to our environment.

When drafting this Farm Bill please remember that production agriculture is the foundation of this nation and provides the building blocks for additional growth and prosperity.

Thank you for letting me share our ideas and concerns with you.

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WIFE Women Involved In Farm Economics

FEDERAL CROP INSURANCE

WHEREAS, natural disasters are devasting to producers of food and fiber when prices of commodities are far below productions costs, and

WHEREAS crop insurance presently does not reflect variation in the amount of risk or ability to handle risk,

WHEREAS the present Federal Crop insurance program is too expensive and the record keeping and paperwork are too complex, and

WHEREAS there have been frequent changes in program rates, rules and policies,

THEREFORE BE IT RESOLVED that WIFE supports Federal Crop Insurance that:

1. is less complex and more easily understood and that benefits the producer,
2. will reflect a producer's cost of production (fixed and variable costs),
3. accurately uses a producer's most current yields and guanrantees yields would go no lowerethan historic county average,
4. may be purchased at affordable premium rates,
5. provides coverage based on units of production (bushels or pounds),
6. does not discriminate against location, farming practices, or number of land units,
7. is voluntary,
8. issues timely payments.

AND BE IT FURTHER RESOLVED until Federal Crop Insurance is improved and more beneficial to producers, WIFE supports retention of federal disaster relief programs.

WIFE Policy --- 1990

NATIONAL WIFE POLICY SUMMARIES

The following positions are a summary of the resolutions found in the National WIFE Resolution's Book and shall be used as a guide to direct the efforts of officers and members in reaching the goals of WIFE.

FARM PROGRAM COMMODITIES

1. WIFE requests Conservation Reserve program payments be in cash rather than Commodity Certificates.
2. WIFE opposes any imported grain from being included or participating in any U.S. government marketing and/or agricultural programs.
3. WIFE urges that as long as the Commodity Credit Corporation has a commodity in storage, that commodity should not be imported: if imported that commodity be subject to the same advertising assessments, checkoffs, FDA requirements, and sanitary codes as domestic products.
4. WIFE supports an escalator clause be part of Farm Legislation so that loan and target prices go up in direct proportion to the cost of production.
5. WIFE supports legislation that equalizes storage rates paid on CCC owned grain whether it be stored by farmers or commercial storage operators.
6. WIFE encourages U.S. grain standards be set to equal or surpass the standards of our world-wide competitors.
7. WIFE requests the USDA report accurately crops held by CCC and that all crops on hand be referred to as *inventories* rather than surpluses.

Corn

WIFE supports maintaining an adequate inventory through a Farmer Owned Reserve.

WIFE supports new and continued research on corn based products and in finding more efficient corn refining techniques.

WIFE supports legislation that encourages disposable plastic products be made degradable by using corn and corn based products.

WIFE promotes the use of ethanol made from corn and supports legislation to extend the federal exemption for ethanol.

WIFE challenges the USDA to strengthen the inspection of all commercially stored grains.

Cotton

WIFE favors expanding the current law to include the point of origin of the raw cotton spun into all imported apparel and textiles.

WIFE supports the cotton impact clause to be triggered on the carryover inventory instead of the price.

WIFE favors a long range recovery system for our commodities at the marketplace that allows a profit to the producer.

WIFE encourages the use and promotion of cotton, wool and natural blend fibers.

Dairy

WIFE recommends legislation requiring that: zero-discharge provisions be repealed: establishes a quota on casein: there be a ban on BGH until more long term research is done: the CCC inventory be based on total solids; dairy products purchased through the CCC for use in social welfare programs not be counted as CCC surplus: coupons be given to allow recipients to purchase fresh dairy products: there be constant refrigeration of school milk: provides larger containers of milk for Junior and Senior High Schools: farmers be paid on the basis of non-fat solids: requires food products advertised with pictures of dairy cows contain dairy products; imitation dairy products be displayed separately in the dairy case and be fairly labeled.

Peanuts

WIFE endorses the present peanut program and recommends it be maintained as a program that works for producers and minimizes government costs.

WIFE supports a quota pound system that balances production with domestic consumption at an equitable profit level for all segments of the industry.

The support price for quota peanuts is based on cost of productions; therefore, WIFE urges the USDA to use the same formula for determining cost of production during the length of the program and statistics from a dependable source or research.

Peanuts not contracted with shellers must go in the loan at a low support price. Additional peanuts are for export and their price is based on world market price which is below the U.S. cost of production. Quota peanuts and domestic markets are far more valuable to producers. We urge that promotion and research directed at domestic markets be given priority.

Communication and a good working relationship among the various segments of the peanut industry is vital to all and we want to continue to improve that relationship.

Rice

WIFE supports the rice program as long as there are surplus supplies and encourages the continuation of P.L. 480. WIFE also supports striving to obtain competitive world markets.

Soybeans

The most immediate need of soybean producers is to gain some type of income protection for soybeans. WIFE feels this can be accomplished by establishing a Marketing Loan Program that would eliminate stock build-up and help keep market prices competitive for U.S. soybean farmers. U.S. producers need to be able to continue producing rather than giving up markets to other countries.

WIFE supports the development of a soybean logo to identify products containing soyoil so the consumer may readily identify soy products.

WIFE supports the long term goal of soybean producers to obtain labeling on packages so the consumer will clearly understand identifications of the various oils used in products.

WIFE feels that these are workable, attainable goals and can be achieved by personal contacts, letter writing and publicity.

Sugar

WIFE supports the sugar program as it is now written. Congress directed that the sugar program be administered without cost to the U.S. Treasury. This is accomplished by limiting imports (through a system of fees, duties and quotas) to the quantity required to balance domestic supply and demand. The program sets the domestic support price at 18 cents a pound for raw sugar.

Tobacco

WIFE recommends that the current tobacco program be continued as the program is self-supporting and government grading be uniform throughout the tobacco marketing area.

WIFE opposes increases in the various federal excise taxes to reduce the federal deficit.

Wheat

WIFE endorses the spirit of the current Food Security Act in its objective of maintaining an economical and abundant food supply for the American people while providing an adequate income for the producer.

WIFE supports a continued program to ensure producer stability while developing favorable marketing conditions. The target price should be frozen at the 1989 level. Deficiency payments should be based on a six-month average making possible a final payment in December. A 30% advanced deficiency payment should be paid at the time of sign-up. WIFE prefers 100% generic certificates. Commodity specific certificates should not exceed 5% of certificates issued. WIFE opposes a triggered acreage reduction program for wheat.

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WIFE advocates a more accurate system for grading grain. A better system for measuring protein levels should be developed.

The United States should vigorously pursue export programs authorized under the Food Security Act of 1985. The Export Enhancement Program should be maintained at current levels.

NON-PROGRAM COMMODITIES

Dry Edible Beans

Dry edible beans are not included in the present farm program; therefore referred to as a "non-program crop."

WIFE opposes any program that places a program commodity in competition against a non-program commodity and believes that an agricultural impact statement should be made before a new program is instituted.

WIFE encourages the awareness and monitoring of legislation that could adversely affect dry edible beans and other non-program crops.

Livestock

WIFE believes antibiotics and drugs in feed should be proven harmful before banning.

WIFE supports "1080" control of predators for disease control.

WIFE supports humane animal treatment but opposes legislation granting human rights to animals and urges educational material be screened and public monies not be used for teaching Animal Rights.

WIFE opposes further patenting of animals.

WIFE supports legislation that declares irradiation of food as a process not as an additive and supports efforts authorizing additional research and development of the process.

Beef

WIFE encourages the same strict standards on imported beef as in the U.S. in regard to pesticide and drug use.

WIFE supports legislation that would require meats to be labeled throughout the entire food distribution process as to point of origin.

WIFE believes that any dairy livestock herd dispersal should include orderly marketing through a monthly quota system.

Pork

WIFE supports a National Swine Identification Plan.

WIFE urges the pork board to continue its efforts in promotion of pork.

No Small Business Administration (SBA) loan program should give preferential treatment of large scale absentee owners so as to place family livestock operators at an unfair disadvantage.

Sheep

WIFE opposes any legislation that would allow for the introduction of the gray wolf or any other wolf species into any federal lands, including Yellowstone Park and surrounding area.

ISSUES OF CONCERN

Education

WIFE supports Vocational Agriculture Education and its continued funding.

WIFE supports efforts of land grant colleges and universities to focus on marketing to help solve economic problems of farms and rural America.

WIFE supports the change in the regulations for eligibility of student loans taking into account only the net income and liquid assets of the parents. Gross income and fixed assets are falsely interpreted in regard to the students need for financial help.

WIFE supports English as the official language of the United States.

WIFE opposes the use of public monies for the teaching of "animal rights" in government funded materials on television programs.

WIFE supports the "Agriculture in the Classroom" project.

Energy

WIFE renews its dedication to continue the ethanol awareness campaign.

WIFE shall inform the American public that the domestic production and use of ethanol could be one major solution to ease the foreign trade deficit, air pollution, world hunger, U.S. unemployment, and rural development.

WIFE shall support legislation that encourages greater use and production of alternative energies from agricultural commodities.

Farm Credit

WIFE strongly urges the establishment of an interest rate policy through which all agricultural lending agencies will make available to all borrowers the same minimum interest rates that are in direct relationship to the rates set by the Federal Reserve Banking System and that these rates must be made available until commodity prices reach a profitable level and stabilization occurs.

WIFE continues to support a policy that allows the landowner who has lost his land through foreclosure the right of first refusal to rent or purchase the property back.

WIFE calls for a further Congressional Investigation (not audit) of FmHA and FCS.

Hazardous & Toxic Waste

WIFE strongly opposes building Hazardous and/or Nuclear Waste repository sites in agricultural and/or water resource areas. Public awareness is greatly needed to understand the issue. Hazardous and Toxic Wastes are dealt with at city, state, and national levels. Any clean-up costs are to be covered by a Superfund which is created and funded by Congress. Landfills, industrial liquid wastes and toxic chemicals are examples of Hazardous and Toxic Wastes. It is a separate issue from the High Level Nuclear Waste.

Labor

WIFE opposes legislation requiring farmers to provide housing for migratory or seasonal labor.

Natural Resources

WIFE will strive to encourage the use of proven data as opposed to human emotions in regulations that govern our industry.

WIFE supports education procedures that will decrease misuse of chemicals by *anyone* buying and using chemicals.

WIFE's definition of sustainable agriculture is an agriculture system that will allow profitability and competitiveness while sustaining the environment (land, water, air), its people and its communities.

WIFE recognizes the goals of a clean water act and supports reasonable means to prevent degradation of surface and ground water.

WIFE opposes unfair regulations that hold agriculture liable for damages which occur to air, water, soil, or animals if all labels were properly observed.

Endangered Species

WIFE urges the EPA to delay implementation of the Endangered Species Act until such time that facts are correct, maps accurate, and the requirements of the Endangered Species Act are being met without unnecessary and overbearing adverse impact on American agriculture. A spirit of understanding and support among the farm pesticide, commodity and public interest groups must be created.

Taxes

WIFE supports legislation that would allow self-employed people to deduct one-half of their health insurance premiums as a business expense.

WIFE requests the reinstatement of the Capital Gains deduction, Investment Tax Credit and Income Averaging for farmers and ranchers.

WIFE supports a tax reform that would allow sales of property between relatives at an interest rate to be determined by the parties involved.

WIFE supports a change in the tax law to make an installment sale of personal property taxed in the year the installment payments are received.

WIFE requests that people who must pay extra tribal taxes on reservations receive a credit for an amount based on their federal, state, and/or county returns and/or tax assessments.

WIFE opposes increases in the various federal excise taxes to reduce the federal deficit.

Trade

WIFE requests Congress and the Administration to address the balance of trade deficit and the loss of jobs created by imports for all U.S. industries.

WIFE requests Congress and the Administration take positive steps to promote the sale of U.S. agricultural products including value added products in world trade.

WIFE supports legislation that restricts or limits U.S. contribution to financial institutions that make loans to foreign countries for production of agricultural commodities that are in surplus in the U.S.

WIFE opposes further extension of agricultural aid to those third-world countries when that aid is used to develop their export markets in direct competition with American farmers.

WIFE opposes dumping of imports in direct competition with our domestic producers simply to drive prices down.

Transportation

WIFE maintains that most agricultural producers pay the transportation costs on all it produces and on all it uses, without being able to pass those costs on. WIFE believes that total deregulation benefits only those areas where there is adequate inter- and intra-model competition.

WIFE believes that all areas should have access to efficient, safe, and reasonably priced freight and passenger transportation.

WIFE is deeply concerned that increased Cargo Preference requirements are adversely affecting our export markets.

LEGISLATIVE

Farm Programs

WIFE supports participation in the Conservation Reserve Program and continued compliance by farmers and landlords for the life of their contracts.

WIFE supports the maximum set-aside allowed by law according to the levels of carryover stocks.

WIFE supports cross compliance provisions for participating commodities and opposes any program which would place a program commodity in competition against a non-program commodity.

WIFE opposes giving lenders the ability to place inventoried land into the Conservation Reserve Program, and in the event lenders are allowed to do so, WIFE opposes any removal of payment limitation or relaxing of guidelines.

Grazing fee formulas on public lands should be set, taking into account the cost of production and the market price.

All farm programs should include disaster payment provisions. CCC warehouse supplies and fresh farm products should be substituted for food stamps and food distribution programs when possible.

Short-term FmHA and SBA emergency and disaster loans should be converted to long-term loans.

WIFE supports conservation and environmental programs which reflect agricultures on going concern for the continued productivity of the land and nutritious food for the consumer.

WIFE supports Long-term Agricultural Policy based on management of supplies that allows adequate inventories to meet domestic and export needs and that is on bushel allotments not base acres.

Person Status

A wife is a separate person and should have the same rights as any other person to qualify for a separate payment limitation. WIFE will continue its pursuit of equity, including legislation, related to "person status" for eligible farm women under farm program payments.

Set-Aside Acres

A consistent and constant NCA is necessary to implement on efficient, fair and realistic set-aside in a bushel allotment program. Once established, this NCA should not be decreased.

Each farmer should be able to divide his NCA into base acreage that best suits his land and farming practices.

Permanent grass and trees may qualify as set-aside and should not result in loss of NCA. Grass acres shall not be grazed, hayed or harvested.

In order to diversify, a farmer should be able to raise non-program crops without losing NCA.

STANDING POLICY

Agricultural Efficiency

Most measures of determining agricultural efficiency are based on profit and loss only and WIFE believes that family operated farms are structured in such a way as to concentrate on practices which will ensure for the long-term productivity of the land and that all determining measures such as soil stewardship, water management, environmental concerns, grain quality, tax base and rural stability shall be factored in when evaluating agricultural efficiency.

CCC Loan Program

WIFE supports legislation which would establish a revolving fund in the USDA with which to implement the CCC loan programs; hereby, taking the funding of the CCC loan programs out of the supplemental budget process.

WIFE requests that a provision be implemented to compensate producers (such as paying interest) when CCC payments are late.

Embargoes

WIFE opposes any embargo of agricultural products for political purposes except in the case of a national emergency. In such a case, we request that all products and technology be embargoed and steps taken to ensure that American products do not reach the offending nation through a third party.

Compensation shall be provided through the State or Defense Department budgets to all U.S. agricultural producers in cases when commodities are used as weapons in setting foreign policy; furthermore, we are opposed to any artificial embargo.

Medical

WIFE is highly concerned about the high malpractice premiums the medical field must carry. These premiums are rapidly causing reduced service, especially obstetrical care, to our rural areas. WIFE urges other organizations, including health care organizations, to promote legislation to ensure obstetrical care be provided in rural America and legislators and insurance companies to revise claim limits and costs of malpractice insurance.

Parity

Parity is the ratio of what producers sell in relationship to the goods and services they must buy.

WIFE supports 100% of parity for all agricultural commodities, to be received from the market place, not from government payments.

REA Program

WIFE supports the REA programs and urges Congress to continue its support of this important program.

Undersecretary for Agricultural Affairs

An Undersecretary for Agricultural Affairs should be appointed in the State Department to be an advocate for agriculture and a watchdog for fair trade practices.

USDA

WIFE believes that the USDA should return its emphasis to the purpose of representing American producers rather than consumers.

Senator KERREY. Thank you.

I know that some of you on the next panel have indicated that you have planes to catch. We are going to continue after this panel. I know Secretary Block has a plane to catch and we will try to get you up and out of here as quickly as possible. Are there any questions from the members of the committee for the panel members? Senator Conrad.

Senator CONRAD. Mr. Chairman, I just think in the interest of time, given the number of people on the second panel, and given the fact that it is almost noon, I will waive my questions.

Senator PRYOR. Mr. Chairman, could I waive all of my questions except one to Harvey Joe? Harvey Joe, I would like to ask you if you know of any particular situations in our State with our farmers relative to the wetlands issue where this would cause some problems for our farmers in the State? Do you know of anything that we are going to be dealing with with wetlands?

Mr. SANNER. Yes, sir, we have probably got two or three farmers that it will not impact.

Senator PRYOR. Mr. Chairman, I think what——

Mr. SANNER. It impacts just about everybody. It really does.

Senator PRYOR. Mr. Chairman, I noticed—I think Mr. Kleckner probably made reference to the wetlands issue, and I know that this hearing is not about wetlands. The reason I raise it, and I say to my colleagues I do not think that we can wait until the 1990 farm bill goes through the process of the committee to deal with this issue. One, I think that farmers are, in fact, environmentalists. I think that the wetland issue has gone far and beyond the issue of a safe and clean environment.

For example, in our State in 2 years, we have moved from 16 percent, I think, to about 84 percent of our land that is now classified as wetlands. The ASCS and the Soil Conservation Service now have a different definition of what constitutes a wetland. We have four Federal agencies that are going to be dealing in a bureaucratic system, telling farmers what they can and cannot do. These are farmers who have farmed that same piece of land for maybe two or three generations, for over 100 years. I look at this really, as I referred to it earlier in the hearing, I think that we have created a Frankenstein. I do not think that we can wait until the 1990 farm bill is going to the President's desk. I think that we have to do it immediately.

I think it is a confiscation of private land by the Government. We are going to have the IRS, the CIA and the FBI and everyone else going out to the farmers' land before this thing is over, and I am just really, I think, soliciting the cooperation of these groups in looking at a reasonable, but I must say, very quick expeditious way that we can deal with a problem. I referred to this last week in my State as the wetlands issue is to the farmer what section 89 was to the small business person. And it is that type of issue. It is explosive. We are running out of time. The farmers do not know what they can do and not do, and I am very hopeful to enlist the support of the fine organizations, Mr. Chairman, represented here this morning. Thank you.

Mr. KLECKNER. Senator, I want to have Jack Block catch his plane, too, but there is a revolution brewing out there.

Senator PRYOR. We are going to have our own Tiananmen Square, and——

Mr. KLECKNER. That is right. And if that has not caught your attention, there may be some people here in Washington who will not back unless—I mean that ought to get your attention in a hurry. Even a bunch of farmers out there do not know—we have not really heard about it yet, but it is on the edge, and when it hits, 80 percent, all but four in Arkansas, 80 percent in Louisiana, you can just go State after State, and many of those do not even know yet that they are in what is called wetlands. When that realization hits, we are all in trouble, but you are up here, too.

Senator PRYOR. Correct.

Senator CONRAD. Would my colleague yield on that point?

Senator PRYOR. Sure. I would be glad to, Kent, as always.

Senator CONRAD. I waived all my questions, but I did not waive the chance to make a comment.

Senator PRYOR. Right.

Senator CONRAD. I just want to add my voice. The Secretary and I had an interchange on this subject when I visited with him a month or so ago. And my colleague, the Senator from Arkansas, has hit the nail on the head. There is deep anger in my State on this question, and it is very simple to understand. Farmers are being approached in a way that would alienate anyone because they are being told you get farm program benefits so you do it our way, and if you do not, we will eliminate all your farm program payments, and in my State that is the death penalty. People do not like to be dealt with in that way. That is exactly what they revolted against in China. That is exactly what they revolted against in Rumania.

That is exactly what they revolted against in Czechoslovakia, some central government bureaucrat coming out there and dictating to you on what you do on your land. There is a better way. You can come to people with an incentive. If this is a national priority, you come to them and say, look, this is important for us to do, and so we do it on an incentive basis. On that basis, I believe farmers will participate, and after all, if they do not participate, it is not going to happen. I am deeply troubled by the attitude that some have brought to this question because it is a matter of how you approach people and how you deal with them, and this heavy-handed approach, you do it our way or we are going to take everything away from you. This approach is going to get a revolt, and I applaud those who have made the point.

And, I would indicate that my State is heavily influenced by wetlands. We have a lot of wetlands, as apparently you do, Senator Pryor, and I say to you there are other States that have already drained their wetlands. They are getting farm program benefits, too, but nothing is happening to them because they already drained their wetlands. Well, I say to you that is not fair. And if we are going to do it in a fair way, we must develop an incentive based system, and do it that way.

Senator PRYOR. I agree.

Senator CONRAD. And the bottom line is that is the only thing that will work anyway. You cannot treat people in this heavy-handed way.

Senator PRYOR. That is right.

Mr. SANNER. Yes, Senator Pryor, I appreciate your interest in it, and it is vital, and we will be working with you, and I wanted Jack Block to catch a plane in 1985 so I will not hold any longer.

Senator PRYOR. OK. Thank you very much.

Mr. SWENSEN. Mr. Chairman, if I may just insert. It is not only of concern to those that are current operators, but in that land that was taken over during the crisis of the 1980's, the Farmers Home Administration has implemented wetland requirements as that land transferred ownership, and it needs to be addressed back to the situation that existed previously.

Senator PRYOR. Thank you.

Senator KERREY. I thank the panel.

The next panel includes the Honorable John Block, president of National-American Wholesale Grocers' Association; Wayne Boutwell, the president of the National Council of Farmer Cooperatives; Stuart Hardy, manager of Food and Agriculture Policy, U.S. Chamber of Commerce; Bill Lesher, Lesher & Russell, Inc., representing the Agricultural Policy Working Group in Washington; John McClung, vice president of government relations, United Fresh Fruit and Vegetable Association; and Mr. Elmer Hillesland, executive director of the Grand Forks Chamber of Commerce.

Senator CONRAD. Each of these witnesses get 2 minutes; is that correct?

Senator KERREY. Five minutes. We will begin with the Honorable John Block.

STATEMENT OF JOHN R. BLOCK, PRESIDENT, NATIONAL-AMERICAN WHOLESALE GROCERS' ASSOCIATION, WASHINGTON, DC

Mr. BLOCK. Thank you, Mr. Chairman.

INTRODUCTION

I am going to, if I may, submit my testimony for the record, and not read it, because it will take a little longer than I should take. But I just talked to Dean Kleckner, and he said it is quite all right because I am going to Cedar Rapids, Iowa, and he says that is God's country.

I am president of the National-American Wholesale Grocers' Association, and we have 350 members representing 1,300 distribution centers. This industry does about $85 billion worth of business providing food to restaurants and to supermarkets. I will also say that my testimony is, in part, based on my experience as Secretary of Agriculture and as a farmer so I want to cover some of those points also as we look at the situation today.

1985 FARM BILL

We went through tough times in agriculture in the early 1980's, a reflection of a lot of earlier high interest rates and rampant inflation. But we have turned a lot of things around with the 1985 farm bill, and I was pleased in 1985 to work with four former Secretaries of Agriculture as collectively they put together a policy statement. I would like to submit it also for the record.

POLICY STATEMENT

It is not this year's statement, it is 1985. But it shows how former Secretaries can work together: Orville Freeman, Clifford Harden, Earl Butz, and Bob Bergland. I might point out that the first sentence in that statement goes like this, "Proper recognition of the internationalization of American agriculture during the past 15 years is the highest priority item that must be considered in the development of the 1985 Farm Bill," and I think we did that in many, many respects in dealing with that bill.

One of the most important points, and the first point made in their joint statement, was to get loan rates down so that they are in line with market conditions. And I quote from their paper. "We recommend loan levels be set in such a manner that they will not be below seasonal average market prices except in unusual circumstances." Do not interfere with the market system. It says loan rates must be set with a strong market orientation. I think that it is still vital today as we write the 1990 farm bill.

FLEXIBILITY

We need flexibility, and I think that maybe Senator Leahy's and Senator Lugar's plan in S. 2292 may well be the answer to that, and so that is something we would also support and believe is necessary.

The United States remains the only major producer that uses massive supply management programs to adjust stocks and I do not think it is a very good idea. We will keep doing it. I understand that. But I would also once again quote from this paper of the former Secretaries, "Government programs that idle U.S. cropland for the purpose of reducing production and raising farm commodity price levels are exercises in futility." These programs fail because they are unilateral efforts by the United States to reduce world supplies and raise world prices.

DAIRY

Turning on to the question of dairy, in that particular commodity, we think the current program is working pretty well. We want to ensure that we continue to tie the price support levels to the stocks, and when they get too high, we need to lower the price supports. We also would ensure that the increased value given to nonfat components of milk in the marketplace is reflected in Government purchases. They should be made on the basis of total solids for dairy products.

PESTICIDES

Quickly, on the issue of pesticides, we do believe that we should have some legislation, amendments to the Federal Insecticide, Fungicide, and Rodenticide Act, which would allow us to move faster in dealing with introducing chemicals into and taking them out of the system. I know that you will not be dealing with the question of some kind of a national standard or uniform standards in this committee, but our industry feels that this is vital in order to ensure

the fair and open trade of farm commodities and agriculture commodities.

We just cannot have a patchwork quilt of different regulations stemming from every single State that wants to safeguard the health of the people.

CRP

I am a strong supporter of the conservation reserve and hope that we end up with around 40 million acres in that conservation reserve.

CONCERNS ABOUT FOOD STAMPS

We have some concerns about food stamps that are in our written testimony, and I am not going to go into them.

FEDERAL CROP INSURANCE

On the question of Federal crop insurance, I guess, unfortunately, I have to conclude that we might need to give it up and not use it anymore because it is very costly; and frankly, I do not think it is working, and from my experience, I do not think it is ever going to work.

CONCLUSION

There are a couple additional points in the prepared statement, but these are the main points of my testimony. I appreciate the opportunity to meet with you today, Mr. Chairman.

[The prepared statement of Mr. Block and the prepared statement by former Secretaries of Agriculture Robert Bergland, John Block, Earl Butz, Orville Freeman, Clifford Hardin, and Richard Lyng on Policy Recommendations for the 1990 Farm Bill follow:]

NAWGA

TESTIMONY OF JOHN R. BLOCK, PRESIDENT
NATIONAL-AMERICAN WHOLESALE GROCERS' ASSOCIATION

BEFORE THE
U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION
AND FORESTRY

MARCH 21, 1990

HEARING ON THE 1990 FARM BILL

National-American Wholesale Grocers' Association
201 Park Washington Court, Falls Church, VA 22046 — (703) 532-9400

Thank you Mr. Chairman. It is a pleasure to appear before this Committee once again to discuss the vital subject of food and agriculture policy.

The National-American Wholesale Grocers' Association (NAWGA) is a national trade association comprised of food distribution companies which primarily supply and service independent grocers and foodservice operations throughout the U.S. and Canada. NAWGA's 350 members operate over 1300 distribution centers nationwide with a combined annual sales volume in excess of $85 billion. NAWGA members employ more than 400,000 people nationwide; and, in combination with their independently-owned customer firms, they provide employment for several million people. NAWGA's foodservice division, the International Foodservice Distributors Association (IFDA), represents member firms that sell annually over $22 billion in food and related products to restaurants, hospitals, and other institutional foodservice operations.

Mr. Chairman, I am pleased to note that work on this Farm Bill commences in a far different context than was the case with the Food Security Act of 1985. After nearly a decade of record growth and foreign demand for U.S. farm products, farm exports fell sharply in the early 1980's. Farm asset values, which had grown with exports, suddenly plunged as well. As a result, those who started or enlarged their operations at highly inflated farmland values of the late 1970's found themselves in a financial crisis. To a large extent, these problems were due to general economic factors -- rapid appreciation in the value of the dollar, slowing rates of growth abroad, high real interest rates and international

debt problems of several developing countries. However, U.S. farm policy shares in the blame. In escalating the level at which crop prices were supported, farm policy pushed U.S. prices above those of major foreign competitors, thereby undercutting U.S. competitiveness. In response to the sharp decline in the exports that started in 1982, government-owned stocks began to rapidly accumulate, adding further to the cost of farm programs.

From that adversity, leaders from both political parties worked together to forge an agricultural policy that would again make us competitive in world markets, be sensitive to the environment and return prosperity to American agriculture.

During development of the 1985 Farm Bill, I was pleased to work with four previous Secretaries of Agriculture to develop a joint statement of policy principles. It fairly well describes the approach taken in the 1985 Farm Bill, which has served us well. Since its enactment, American agriculture has enjoyed strong improvement in net cash farm income, as well as the value and the volume of U.S. farm exports. Also, we have seen improvements in the value of farm assets. In addition, our burdensome surplus stocks have been reduced and real aggregate farm debt has declined. Of course, government expenditures on this program have also been going down after the record high in fiscal year 1986.

We knew the costs of the 1985 Farm Bill would be great, but those actions were taken because returning American agriculture to a competitive basis was well worth the investment. Now,

declarations of the success of the 1985 Food Security Act are almost unanimous. I am concerned that we not become content with the 1985 Bill's accomplishments and lose sight of the intended long-range course towards market orientation and a reduced reliance on government assistance. We must continue to review price and income support levels and allow producers greater discretion in meeting the aims of farm programs. The need for continuing these reforms of U.S. farm programs will only be strengthened if the Uruguay Round of the GATT negotiations prove to be fruitful.

To be more specific, we offer several recommendations to continue strengthening of American agriculture's competitiveness. We should pursue with renewed vigor the principles of the 1985 Farm Bill. Specifically, loan rates must be set with a strong market orientation. Never again should U.S. policy price American commodities out of world markets.

Producers need greater discretion and flexibility in applying farm program provisions to their operations. Current practices of operating farm programs on crop-by-crop specific base plans deny flexibility in planning decisions and farmers are forced to plant certain program crops based on past practices. Farmers should be given greater flexibility in managing their resources to improve crop rotation practices and allow planning decisions more in line with market signals and prudent environmental practices. Senators Leahy and Lugar have introduced S. 2292, which appears to offer such flexibility.

A sad reality of agriculture policy is that as long as target prices expose the government to high budget costs, a strong temptation will be present to over-rely on acreage reduction programs. That temptation should be resisted. The United States remains the only major producer that uses massive supply management programs to adjust stocks.

At long last, dairy price supports generally have been brought back into balance with market conditions. Price support levels should continue to be adjusted based on estimates of federal purchases. In addition, the increased value given to non-fat components of milk in the marketplace should be reflected in government purchases being made on the basis of total solids.

The selected use of Export Enhancement Program initiatives has helped recapture some markets lost because of unfair trade practices. Perhaps more important in the long-term, the program is also giving incentive to GATT negotiators to accept new discipline for agricultural trade. This policy tool also needs to be continued.

We also have suggestions in the area of food safety. The manner in which we regulate pesticides has been a focus of increasing attention. Unfortunately, much of this debate has done nothing to increase public understanding about food safety. As the National Academy of Sciences has concluded, pesticide residues do not pose significant food safety problems. Nonetheless, it is important that we vigorously protect our food supply and

environment with regulation of pesticides. Under the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA), it is important that we proceed with expeditious re-registration of older pesticides. In doing so, pesticide registration requirements must not become so onerous that vital pesticides are lost to so-called minor crops simply because the size of the market does not warrant the regulatory burden that the chemical manufacturer must face. Additionally, in streamlining procedures for cancellation and suspension of pesticides, it is important that we retain procedures that assure reasonable consideration of the reasons for continued use of a pesticide, particularly in light of last year's market terrorism regarding the chemical Alar.

A premise for many of this Committee's actions since the 1930's has been the recognition that America's agriculture and food industries operate as a national, if not international, market. This fact should be reflected in our regulation of pesticide use. The considerable expertise of the federal government can be brought to bear on pesticide use issues with at least as much competence as any state. Moreover, responsible uniform regulation of pesticides will reduce the confusion and unjustified alarmism about food safety that has been far too prevalent in recent years.

Meat and poultry inspection is an important and effective element of our food safety system. We must assure that it is funded adequately to fulfill its mission. In addition, we favor establishment of a uniform mandatory seafood inspection program

that would be administered by the USDA in consultation with appropriate other agencies. Such an inspection program should use Hazard Analysis Critical Control Point (HACCP) principles and be federally funded.

One of the major environmental accomplishments of the 1985 Farm Bill was the adoption of a Conservation Reserve Program (CRP). Almost 34 million acres of land are now under contract to help conserve and improve soil and water resources. The most fragile lands that were in cultivation have been enrolled in the CRP. We endorse the extension of the Conservation Reserve Program with authority for up to 40 million acres enrollment of fragile lands.

In recent years, up to one in every 10 Americans has had to rely on the Food Stamp Program. A great strength of the Food Stamp Program is the accessibility of grocers who are authorized to redeem food stamp coupons. In the 1960's, the Department of Agriculture had difficulty obtaining the participation of grocers in the Food Stamp Program. However, now that there is strong participation by grocery retailers, the Department has been increasingly restrictive in its regulation of groceries authorized to participate in the Food Stamp Program. This year the Department has proposed further restrictions on retail food stores with the rationale of preventing program abuse.

Indeed, I am proud of the reductions in food stamp error rates and other abuse that were made during my time at the Department of Agriculture. With the rationale of preventing abuse, the

Department has now proposed a series of restrictions on stores participating in the Food Stamp Program. Of course, the vast majority of abuse of the Food Stamp Program does not occur with grocers. Moreover, what abuse does occur at that level would generally not be prevented by these proposals. We have contacted the Department to express our eagerness to work with them to improve anti-fraud program features. Until that sort of cooperation occurs, we cannot be supportive of the several Departmental proposals. What practical effect would result from requiring all officers, owners and on-site managers of food stores to disclose their social security numbers to the Food and Nutrition Service? How much real abuse would be halted by biennial reauthorization of stores or the prohibition of receipt of a loose food stamp coupon? Moreover, the Department of Agriculture has simply not made its case for additional restrictions on co-located wholesale/retail food concerns.

It is essential that the Department's proposal that would generally require any co-located wholesale/retail food concern to have a "substantial level of retail food business" not be measured by a percentage of the food concern's total sales. Given the highly restrictive character of recent Departmental actions toward authorized stores, precise definition of this proposal is crucial to us.

The requirement that the social security numbers of the officers, owners and on-site managers of participating food

concerns appears to be an unjustified invasion of the privacy of upstanding private citizens. The Department has not yet explained precisely how this information would be used and protected. We must oppose such an invasion of privacy until compelling justification is provided.

We at NAWGA are deeply concerned about the proposal for biennial reauthorization of participating food stores and the proposed unlimited authority for USDA to charge participating grocers a user fee for such reauthorizations. We do not recognize any significant benefits that would outweigh the inconvenience and expense of over 125,000 reauthorizations each year.

We are supportive of expansion of food stamp Elections Benefit Transfer (EBT) activities. Of course, it is important that USDA maintain high standards for EBT activities.

Finally, Mr. Chairman, there are several additional recommendations that I would like to make for the Committee's consideration, though they do not necessarily reflect the position of the National-American Wholesale Grocers' Association. Our Federal Crop Insurance Program has been a valiant effort in a vital cause that has simply fallen short of the mark. It has proven to be tremendously expensive and participation has remained unacceptably low. Repeatedly, Congress has found it necessary to enact disaster assistance legislation. We should now face the fact that federal crop insurance simply is not working and should be eliminated.

There is sufficient credit availability and excellent capability to service farm operating and ownership lending needs through institutions other than the Farmers Home Administration. The Farmers Home Administration should limit its farm lending activities to guarantees and not continue to engage in direct lending activities.

American agriculture must continue to be environmentally responsible. One area of growing concern is the quality of our ground water, which serves as a major source of U.S. drinking water. A calm, reasoned approach will best serve the interests of environmental protection and continued economic growth. We must get the facts through responsible ground water testing and continued research. Thereby, to the extent ground water contamination problems arise, we will be prepared to use techniques that are appropriately tailored to the particular problem. Ground water quality is too important to ignore and a regulatory over-reaction to ground water problems would be too economically damaging to withstand.

I appreciate the opportunity to appear before this Committee once again. I would be pleased to answer any questions.

A STATEMENT BY FORMER SECRETARIES OF AGRICULTURE ROBERT BERGLAND, JOHN BLOCK, EARL BUTZ, ORVILLE FREEMAN, CLIFFORD HARDIN AND RICHARD LYNG

ON
POLICY RECOMMENDATIONS FOR THE 1990 FARM BILL

JULY 25, 1990
WASHINGTON, D.C.

In 1985, four former secretaries of agriculture joined then-Secretary John Block in a statement advocating major reform in farm policy. The principles endorsed by that distinguished team, including Secretaries Freeman, Hardin, Butz, Bergland and Block, were, in large part, incorporated into the 1985 Food Security Act. Five years later, most involved in agriculture would agree that the policies established by that landmark legislation have been largely successful. As we stand again at a crossroad in agricultural policy-making, this same group, in addition to former Secretary Richard Lyng, has rejoined to recommend that we maintain the course established in 1985.

The cornerstone of the 1985 statement was the following paragraph:

> "Proper recognition of the internationalization of American agriculture during the past 15 years is the highest priority item that must be considered in the development of the 1985 Farm Bill. In order to serve farmers and the Nation well, the 1985 Farm Bill should expand farm markets, raise farm income and stimulate growth in farm exports."

The goals then outlined have been substantially attained. Specifically, in 1989, farm exports reached their second highest level in history, farm income reached a record $59 billion, and the $10.9 billion spent on direct payments to farmers was the lowest amount spent since 1985.

Congress should consider ways to build and improve upon the positive policy direction implemented under the 1985 Food Security Act. In order for U.S. agriculture to maintain and expand its rate of growth throughout this decade, the 1990 Farm Bill must incorporate the following principles:

1. Price floors (non-recourse loans and dairy support prices) should be set at levels that do not interfere with the operation of the marketplace.

2. Producers should be allowed increased planting flexibility, in order that they might respond to market signals rather than artificial, government-induced incentives. The rigidity of existing programs requires farmers to plant existing program crops in order to protect their bases and receive income supports. The result is a system in which producers make production and marketing decisions based on government signals. Such a system unduly encourages the production of program crop while it discourages the production of oilseeds and certain non-program crops (leading to a loss in exports and market share for these crops). Increased planting flexibility will give farmers the chance to respond to these export opportunities, while allowing them to implement more agronomically-sound crop rotations.

3. Reduce the need for acreage reduction programs (ARP's) through the expansion of demand. The use of ARP's raises farm production costs, hurts U.S. export competitiveness, encourages foreign production and reduces rural economic activity. A primary thrust of future U.S. agricultural policy should be to expand demand so that the need for acreage reduction programs, except those for fragile lands included in the Conservation Reserve, is eliminated.

4. Development activities should be used to expand export markets. Three-fourths of the world's population lives in developing countries. These are our growth markets. As these markets become more accessible, we must insure that American agriculture gets a fair share of them.

5. The Conservation Reserve Program, one of the key farm programs implemented under the 1985 Farm Bill, has worked well and should be continued. It is a program that protects our soil for future generations, reduces soil erosion, reduces sedimentation in streams and lakes, and offers refuge to wildlife. However, caution should be taken not to commit too many acres to the program. Considering the low level of world food stocks, a limit of forty-five million acres should be imposed on the reserve.

6. The Export Enhancement Program (EEP) has been an effective tool to offset the use of unfair trade practices. Continued use of the EEP is warranted until such unfair, costly and market distorting practices are discontinued through the completion of a successful GATT agreement.

7. Given the extensive experience on the part of the federal government with federal crop insurance, we believe that an actuarially-sound program can be structured for the benefit of farmers at a minimum cost to the federal government.

8. It is obvious that the budget deficit will have a major impact on farm program policy. However, it is essential that spending adjustments not undermine the policy principles outlined herein.

It is vitally important for the 1990 Farm Bill to maintain and build on the successes of the 1985 Food Security Act. Inclusion of these above basic principles in the new farm legislation will ensure that U.S. agricultural policy will encourage growth and prosperity in American agriculture throughout this decade.

Senator CONRAD [presiding]. Secretary Block, we appreciate the fact that you need to catch a plane. Before you do, if I might just ask, you made the point on a unilateral idling of acreage in this country. I had my staff gather the numbers. In the late 1980's, the United States idled nearly 80 million acres, and had an economic loss to this country of some $40 billion, and lost about 1.5 million jobs in this country.

Let me ask what the Secretaries would have said if it were a multilateral approach, not a market sharing approach—we reject the multilateral approach in this country although the Europeans are very high on that notion. If the major agricultural producers were able to have some rough balancing of supply and demand through a common conservation reserve and a common policy on set-aside acreages, could the U.S. farmer obtain a reasonable price in the marketplace?

Mr. BLOCK. Well, I do support the conservation reserve because the objective there is different, and we are really taking our fragile lands that should not be farmed as intensively. So that is a little different than taking out some of the best land in your State or some of the best land in my State. That is an entirely different question, and that tends to result in an industry that is extremely inefficient as compared to how it might be. How would the other Secretaries view this question on a worldwide basis somehow? They might disagree on how to do it, but I am pretty well convinced with their international experience, they would conclude, as I do, that you cannot get the countries together anyway, and this is just a futile attempt to have a worldwide cartel on food. It is tough enough to do a worldwide cartel on oil. They have had tough times doing that, but food is even more difficult.

And it is also something that I think we would really be called into question as to how we are approaching the needs of humanity if we did that. And you would say, well, we are not going to hold it back very much, just enough to get a little price, but I do not think there is any way in the world you could do that.

Senator CONRAD. All right. Let me ask you what you would do about farm income? I do not know if you were here when we were reviewing, if you freeze target prices at current levels, you have a 40 percent loss in farm income by 1994. What do you do about farm income?

Mr. BLOCK. Well, I would like to see the price of soybeans and corn reflect the inflation we have seen in this country over the last 20 years, and then I would be rich. But we are not going to see that. You just have to accept reality. The reality is that in agriculture we are finding new technology. We are more efficient. We can raise a bushel of corn or wheat cheaper than my grandfather could, and that being the case, we are not going to get as much for it as he did. And I think there is probably nothing better than the market system. Eastern Europe has tried, and the Soviets have tried a system of government supply controls and manipulation of price, and it has never worked for them. Once again, as painful as it may be, I think the market system is the best system.

The reason why it is so hard for us in agriculture is because we are living with an industry where the numbers in the industry are on the decline, and they are on the decline because new technology

is replacing farmers. So you have machinery and equipment and so forth, and it replaces farmers, and this hurts. This makes—that is why these committees sit and wring their hands. If we were an industry that was growing and explosive, as in computer chips or computer software, and we were adding new employees to the industry all the time, we would not be sitting around talking about how do you salvage the people on the land. There are no easy answers, but I do not think the Government is the answer. I think you just have to let the Government cushion the blow with the supports that we have, or some of the supports that we have. But you do not want to ever take the prerogative away from the markets. If you do, we will be in deep trouble.

Senator CONRAD. Let me just ask you this. I almost hear you saying we should unilaterally disarm. You started out talking about the internationalization of the markets, and we see our European friends subsidizing commodities. They are paying their producers two and three times world market prices, taking the excess, dumping it on the world market, and lowering prices for all of us. I hope I am not hearing you say that we just unilaterally disarm and throw our producers to the winds.

Mr. BLOCK. I am not saying that. It infuriates me to see the system that they have and the prices that they receive. So I am a strong supporter, in fact, was the one that negotiated with OMB and the White House, of the export subsidy program, and I support it. I think we need to maintain constant pressure on it, hoping we can bring them to the negotiating table. But in the end, we will all be better off if we can get away from that kind of nonsense.

Senator CONRAD. The question is how we get there, I guess, and that is the question we all have to confront.

Mr. BLOCK. Well, it is a rocky road.

Senator CONRAD. Obviously, it would be good for the efficiency of the world food system if we would get trade liberalization. We all understand and appreciate that. The question is how do we get them to back off? How do we get them to move to a different regimen, and I am persuaded we certainly do not do it by unilaterally disarming on our end.

Mr. BLOCK. No, we just have to keep the pressure on, and I do not pretend to think that we will get rid of farm programs, nor do I think we should. I think we need to let the markets work as much as we can on the one side so that we do not interfere with the market system anymore than we have to. We use subsidies to counteract other countries, that is fine, but do not interfere anymore than we have to with the market system here in the United States. At the same time, we can provide support to farmers. We believe in the rural economy and rural America. It is part of our heritage. It is a healthy thing.

We do not need everybody in the cities. So we can provide some direct support but try not to interfere with the markets anymore than we have to because I think we really get into trouble when we do that. I apologize, but I had better leave.

Senator CONRAD. Thank you very much, Mr. Secretary. We appreciate your patience and your participation here today.

Mr. BLOCK. Thank you.

Senator CONRAD. Next we will hear from Wayne Boutwell, president of the National Council of Farmer Cooperatives.

STATEMENT OF WAYNE A. BOUTWELL, PRESIDENT, NATIONAL COUNCIL OF FARMER COOPERATIVES, WASHINGTON, DC

Mr. BOUTWELL. Thank you very much, Mr. Chairman. I do have a complete statement that I will include for the record, and I will give a brief summary of my comments.

Senator CONRAD. We appreciate that.

INTRODUCTION

Mr. BOUTWELL. You might recall in 1984, and I am sure you have heard now for a number of occasions how much trouble agriculture was in, and what this committee, and the leadership of Congress did about that in terms of implementing what amounted to a dual set of objectives for American agriculture and for foreign policy. These two objectives included providing support for farm income while being price competitive in the international marketplace. The marketing loan program, the EEP, TEA, and the Findley provision for corn were all designed to do just that. And the results have been remarkable.

CHARTS

I have included in my testimony some charts that show the results for some of the commodities in terms of the impact on farm income, export volume, share of market, income-to-debt ratios, and so forth. The one chart that I would like to highlight for you is chart No. 8 because it has to do with how much agriculture is costing relative to the budget. Basically it's a 30-year average of CCC outlays as a percent of the Federal budget. You will see within that that for 1988, 1989 and 1990 the cost of farm programs relative to the overall Federal outlays is less than the 30-year average. And so, indeed, the cost of these programs are not disproportionate relative to historical expenditures, relative to the overall expenditures of the Federal Government. I think that is important because clearly we are going to be trying to find a budget mark in which to operate in with this particular piece of legislation, and we need to defend the fact that we are down well below a 30 year historical average relative to Federal expenditures, and in fact, going south on that particular curve.

Senator CONRAD. In fact, if I am not mistaken, your numbers would show that we would at about 1.4 on a 30-year average.

Mr. BOUTWELL. On average. That is correct. 1.4.

Senator CONRAD. 1.4 percent of the Federal budget. The 1991 proposal by the administration is .8 of 1 percent, if I am not mistaken——

Mr. BOUTWELL. That is correct.

Senator CONRAD [continuing]. Which is almost half of our 30-year average share of Federal budget. My colleagues know that I feel very strongly about reducing the Federal deficit. We have a group called the Deficit Reduction Caucus. We will be meeting tomorrow morning with Richard Darman, as a matter of fact, and they come to me and say, well, Kent, how can you be a deficit hawk and say

that this year we ought to be increasing agricultural expenditures from what the administration has recommended? And this is exactly the case I make.

Mr. BOUTWELL. That is correct.

Senator CONRAD. Our share of the Federal budget has diminished substantially, and a lot of people are reacting to where we were back in 1986. Well, 1986 is not where we are today and your chart graphically depicts that, and I appreciate your bringing it to the committee's attention.

Mr. BOUTWELL. Thank you very much, Mr. Chairman.

WE DO NOT SEE ANY BASIC NEED FOR FUNDAMENTAL CHANGES WITHIN THE 1985 FARM BILL

Based on our analysis of what has happened within the agricultural sector and the charts we have just shown, we do not see any basic need for fundamental changes within the 1985 farm bill.

IMPLEMENT A STRAIGHTFORWARD MARKETING LOAN PROGRAM

But as you know, there has been a problem created within the corn-soybean complex, and you have seen the charts on the soybean industry. There have been many proposals as to how to deal with that. Our suggestion is very simple, and that is that you implement a straightforward marketing loan program at a support level consistent with that of the support for the other competing commodities, mainly corn and cotton.

But in establishing the rate that you take into consideration the set-asides of the other crops, as well as the need to maintain a viable soybean industry, and the need to compete with alternative crops.

COMBINE THE DISASTER PROGRAM WITH THE CROP INSURANCE PROGRAM

On another front, on the risk side of agriculture, that continues to be a problem, and there have been proposals as to what to do with the crop insurance program. We would suggest, Mr. Chairman, that you combine those two programs, that you combine the disaster program with the Crop Insurance Program. That, in fact, you make the disaster program a catastrophic program on the low end of the yield and that you actually only buy the insurance on the middle range of the yields in the middle.

Senator CONRAD. Why do you not take a little time and explain that a little further? I would be interested in what you are talking about there.

Mr. BOUTWELL. OK, Mr. Chairman.

The problem that we have had in the past as you have bought insurance that covers from some level down to zero. Not everyone participates in that program. And so when a catastrophe occurs or disaster occurs, you come in and typically overlay that with a disaster program, which reduces the desire or need on the part or view of the farmers to participate in the crop insurance program to start with. So it has made it fundamentally economically unsound because of that.

Our thought is if you layer the disaster—go ahead and make a disaster program available to everybody at some percent or less of yield and do not buy insurance for that. Make that a permanent program.

Senator CONRAD. Give me an example so I understand.

Mr. BOUTWELL. Let us say that you provide disaster assistance for any yields between 40 percent or below. And that you buy insurance——

Senator CONRAD. So if you had a loss of over 40 percent you would qualify for——

Mr. BOUTWELL. For disaster assistance.

Senator CONRAD. OK.

Mr. BOUTWELL. You would not pay any premium of insurance for that coverage. That is a disaster assistance program. In other words, the subsidy in the insurance program——

Senator CONRAD. Are you talking a 60 percent loss or a 40 percent loss?

Mr. BOUTWELL. Forty. It would be down 40. Let us back up. It would be—let us say you have a yield of 100 bushels, below 40 bushels would be covered by disaster program. Let us say from 40 to 60 or 65 you would insure or 70, depending on where you want to select. Above that would be treated as a deductible or self-insurance on the part of the farmer. So it would basically be three levels. A deductible on the top end, crop insurance on the middle band, and a permanent disaster program on the bottom end.

Senator CONRAD. I like that. That makes some good sense.

Mr. BOUTWELL. So anyway we have taken a look at that, Mr. Chairman. It makes some sense to us in the——

Senator CONRAD. Do you have any estimates on the cost?

Mr. BOUTWELL. We are in the process of pulling together a group now to take a look at the specifics of this program, but we thought we were far enough along to suggest it as an option that might be considered by this committee, and we think it has a lot of promise.

Senator CONRAD. Yes, that has some good sense to it. One of the things that we find farmers saying out in the country is, look, we would like to have an ability to insure like we do on hail insurance for a dollar amount per acre with limits, obviously, so somebody is not insuring wheat land for $500 an acre, something like that. But something like that could be coupled with the plan that you are talking about here.

Mr. BOUTWELL. A couple of things would happen. If you did not have to insure the premiums on the bottom end, then the rates should be lower on the middle band. If you will raise, then, the level of coverage to a proven yield, you will bring in farmers who are not participating now——

Senator CONRAD. Right.

Mr. BOUTWELL [continuing]. Which should further hold down the rates on the insurance portion. We just think——

Senator CONRAD. It broadens the base.

Mr. BOUTWELL. It broadens the base.

Senator CONRAD. Spreads the cost.

Mr. BOUTWELL. That is correct.

Senator CONRAD. All right.

Mr. BOUTWELL. That is correct, Mr. Chairman.

CONCLUSION

One final note, Mr. Chairman, and that is I will echo what the Secretary said relative to food safety and the environment. We are also concerned about the potential that you may have 50 different sets of State rules in this area, and clearly for all the reasons that were so stated, and we would support some sort of a national uniform standard in this process to eliminate that possibility. That concludes my statement.

[The prepared statement and charts 1–9 of Mr. Boutwell follow:]

Wayne A. Boutwell
President
National Council of Farmer Cooperatives
Before
Senate Committee on Agriculture, Nutrition and Forestry
On
1990 Farm Bill
Wednesday, March 21, 1990

Thank you, Mr. Chairman. My name is Wayne Boutwell and I serve as President of the National Council of Farmer Cooperatives on whose behalf I appear today.

The National Council of Farmer Cooperatives represents over 100 regional marketing and supply cooperatives, 32 State Councils and the banks of the cooperative Farm Credit System. Our members, in turn, represent nearly 5,000 local cooperatives with a combined membership of approximately 2 million farmers.

Review of 1985 Farm Bill:

Before outlining our recommendations for the 1990 Farm Bill, we believe it is important to review how well the 1985 Farm Bill has worked. In our view, it has worked extremely well and has met its two basic objectives which were: one, to protect farm income; and two, to allow U.S. agriculture to compete more effectively in the international marketplace.

Under the 1985 Farm Bill, net farm income reached a record high and continues to remain at a healthy level. Debt to asset ratios have improved substantially. Land values have stabilized and in many areas have increased. Equally important, farmers' ability to service their existing debt our of current income (income/debt ratio) has also improved dramatically (Chart 1-2).

Through a combination of programs, such as the marketing loan for cotton, rice, and honey, the export enhancement program (EEP) and the Targeted Export Assistance (TEA) program, U.S. agricultural exports have increased dramatically in terms of both sales and volume. Stock levels, which had reached burdensome levels, have also been reduced substantially (Chart 3-4).

At the same time, our share of the world market for many commodities has improved significantly (Chart 5-6).

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While the cost of these programs was high initially, outlays have declined substantially. In fact, measured in relation to the overall budget, we are spending proportionately less today on agriculture than the average over the last 30 years (Chart 7-8).

By almost every measure the 1985 Farm Bill has been a proven success. The 1990 Farm Bill should build upon that success and continue to have as its objectives the need to protect farm income while allowing U.S. agriculture to compete effectively in the international marketplace.

This becomes particularly important if world trade remains stagnant which likely would translate into even more competition to maintain market share and continued concerns over unfair foreign trade practices (Chart 9).

Recommendations for the 1990 Farm Bill:

Within this overall context, we would like to recommend the following:

Target Prices:

We believe that target prices should be maintained at their current levels with additional authority to allow the Secretary to make any necessary adjustments based on increases in costs of production. Target prices have already been reduced approximately 10 percent under the 1985 Farm Bill.

At the same time, production costs for many commodities have increased as the cost of inputs has gone up over 9 percent. In addition, to the extent that target prices are reduced as part of the 1990 Farm Bill, such cuts could very well end up being compounded under Gramm-Rudman-Hollings or similar budget pressures resulting in even less income protection than that initially provided.

Loan Rates:

Minimum loan rates as now provided under current law should continue to be maintained. For many producers, the loan in addition to being a marketing tool also helps in obtaining needed credit. There is adequate flexibility under both the marketing loan and Finley provisions to provide for orderly marketing and to ensure that we continue to be price competitive.

Marketing Loan for Soybeans and Other Oilseeds:

It is becoming increasingly clear that there needs to be a reexamination of current policies and programs with regard to soybeans if we are to continue to have a viable and competitive domestic soybean industry. We believe a marketing loan program similar to that which has worked so well for cotton and rice should be expanded to include soybeans and related oilseed crops.

This would serve to protect farm income, allow us to be price competitive, discourage further expansion of soybean acreage in Brazil, Argentina and other countries, and enable U.S. producers to capture their fair share of the world market.

Planting Flexibility:

There is a general consensus that current farm programs need to be adjusted in order to provide producers with needed flexibility to better respond to market signals. This is particularly true with regard to the corn-soybean complex where existing programs have virtually locked producers into certain cropping patterns. However, we believe that any new authority should not unfairly subsidize the production of alternative crops, particularly nonprogram crops, at the expense of traditional producers of such crops.

Trade Provisions:

We would also urge that a strong trade title be included in the 1990 Farm Bill. This would include maintaining, together with needed funding, both the Export Enhancement (EEP) and Targeted Export Assistance (TEA) Programs; providing expanded credit through both the GSM 102 and 103 programs to facilitate export sales; and strengthened and improved provisions under the P.L. 480 program in order to provide needed funding and streamlined decision-making especially with regard to market development activities.

Such an aggressive approach is also needed to encourage the European Community and other nations to reach an acceptable agreement under the Uruguay Round of GATT negotiations and provide a level playing field for U.S. agriculture on a commodity by commodity basis.

Research:

In the long term, if we are to continue to be able to compete effectively in the international marketplace, it is important that U.S. agriculture be able to respond to changing market conditions. This underscores the need to maintain a strong research base, both

public and private, in order to ensure that agriculture has access to the latest developments in new technologies aimed at improving productivity while continuing to meet current and future environmental challenges.

Disaster Protection:

We believe rather than simply eliminating the existing federal crop insurance program that it should be restructured in combination with a disaster assistance program to provide producers with adequate protection against the risks inherent in production agriculture.

This would result in a tiered or layered approach with disaster assistance available to all producers to cover losses below a certain level. Such a program in effect would limit disaster assistance similar to that provided in 1988 and 1989 to catastrophic losses only.

A restructured optional crop insurance program would then be available as a second tier or layer of protection for those producers electing to purchase additional coverage over and above that provided by disaster assistance.

By providing disaster assistance on the "bottom end" and insurance coverage on the "top end" the premium cost of the restructured federal crop insurance program should be reduced compared to current premium levels.

Any new insurance program should also take into account a producer's individual performance and yields. This would help make the program even more attractive and encourage greater participation which, in turn, would further reduce premium costs.

Environmental and Food Safety Issues:

There are other equally challenging issues which need to be addressed, including those relating to environmental concerns and food safety. We share those concerns and are actively working in support of programs and policies which will provide needed safeguards and incentives while maintaining the ability of agriculture to continue to meet our overall food policy objectives.

Specifically, this would include: first, establishing the Federal government with primary responsibility for ensuring the safety of our food supply. At the same time that we are seeking to harmonize health and safety standards in the international marketplace, we should have the same objective in the domestic market for many of the same reasons. The possibility of 50 different standards is a very real threat to producers and consumers alike, it adds to public

confusion, and further limits consumer confidence in the safety and wholesomeness of our food.

Second, supporting needed regulations established on a scientific basis, together with continued improvements in monitoring and testing, to ensure that our food supply continues to be safe and wholesome.

Third, providing needed resources and encouraging the Federal government to help improve public understanding and awareness of its ongoing efforts to assure consumers with a dependable, safe and wholesome supply of food at reasonable prices.

Finally, supporting increased research and extension efforts aimed at further improving agriculture and the food industry's ability to provide consumers with a dependable, safe and wholesome supply of food at reasonable prices in an environmentally sound way.

We believe these four points should form the basis for any new legislation and we look forward to working with you in this regard. Clearly, there is a need for Congress to move forward if we are to maintain consumer confidence in the fact that we have the safest food supply in the world and that we are committed to improving upon that record.

Conclusion:

Again, Mr. Chairman, I want to commend you and the others on this Committee for your leadership and efforts on behalf of agriculture, and we look forward to working with you in the development of the 1990 Farm Bill.

CHART 1
NET FARM CASH INCOME

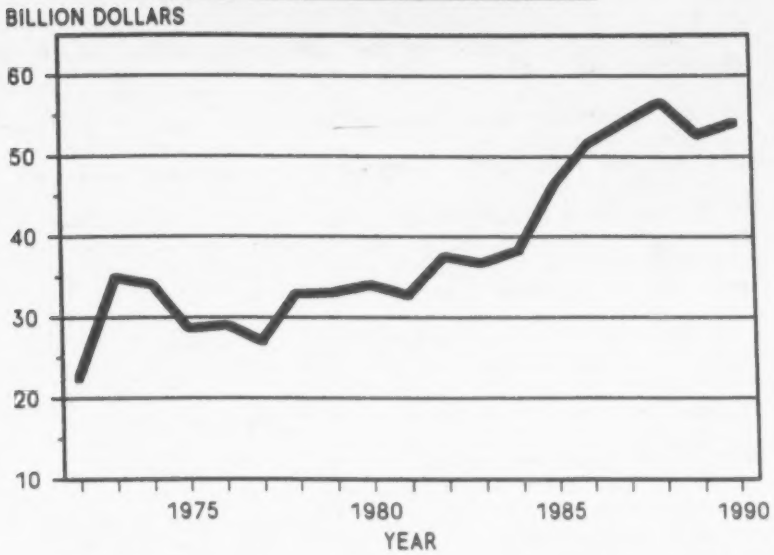


CHART SOURCE: AGRICULTURAL CHARTROOM, NAT'L COUNCIL OF FARMER COOPERATIVES

CHART 2
FARM FINANCIAL CONDITIONS

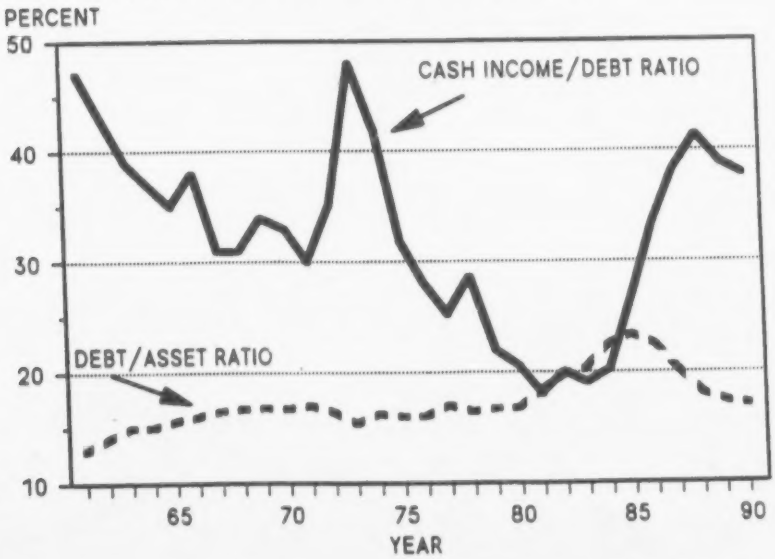


CHART SOURCE: AGRICULTURAL CHARTROOM, NAT'L COUNCIL OF FARMER COOPERATIVES

CHART 3

U.S. EXPORT VOLUME AND GRAIN STOCKS

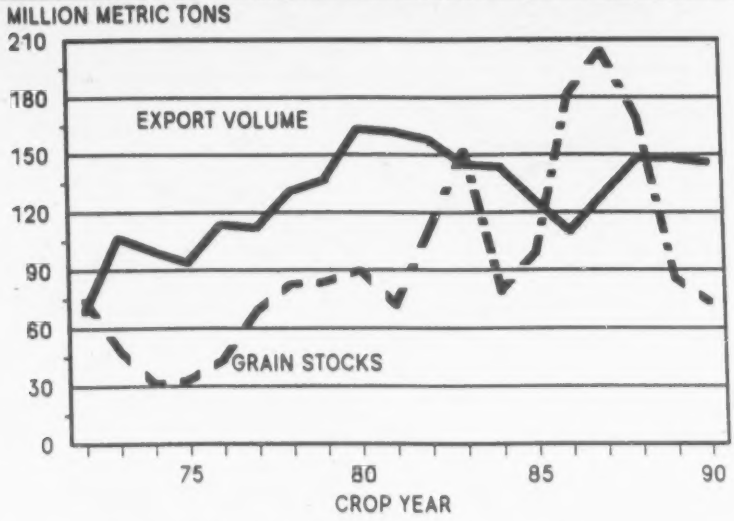
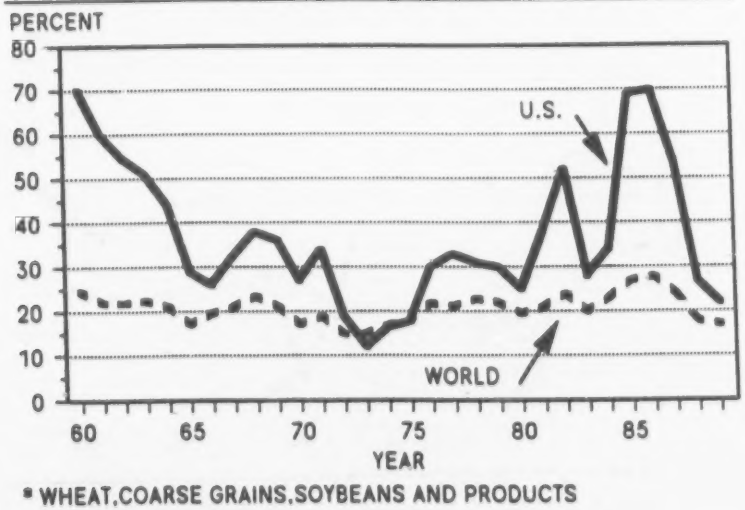


CHART SOURCE: AGRICULTURAL CHARTROOM, NAT'L COUNCIL OF FARMER COOPERATIVES

CHART 4

WORLD & U.S. GRAIN STOCKS-TO-USE*



* WHEAT,COARSE GRAINS,SOYBEANS AND PRODUCTS

CHART SOURCE: AGRICULTURAL CHARTROOM, NAT'L COUNCIL OF FARMER COOPERATIVES

CHART 5
U. S. SHARE OF TRADE
GRAINS AND SOYBEANS & PRODUCTS

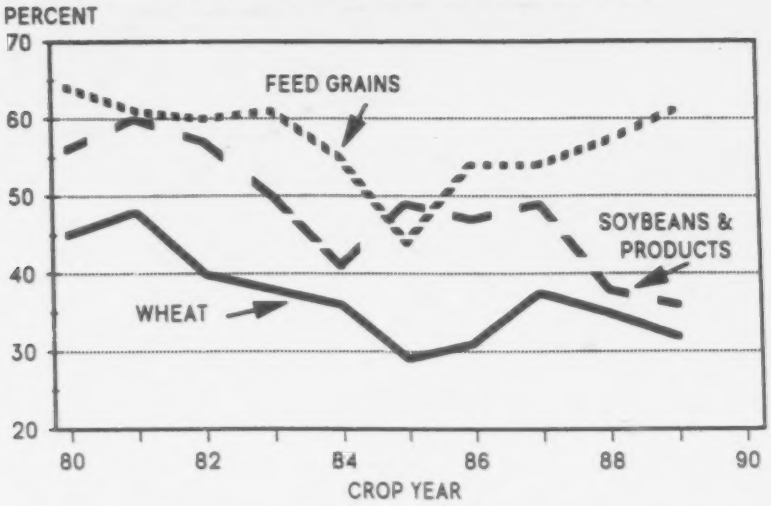


CHART SOURCE: AGRICULTURAL CHARTROOM, NAT'L COUNCIL OF FARMER COOPERATIVES

CHART 6
U. S. SHARE OF TRADE
COTTON AND RICE

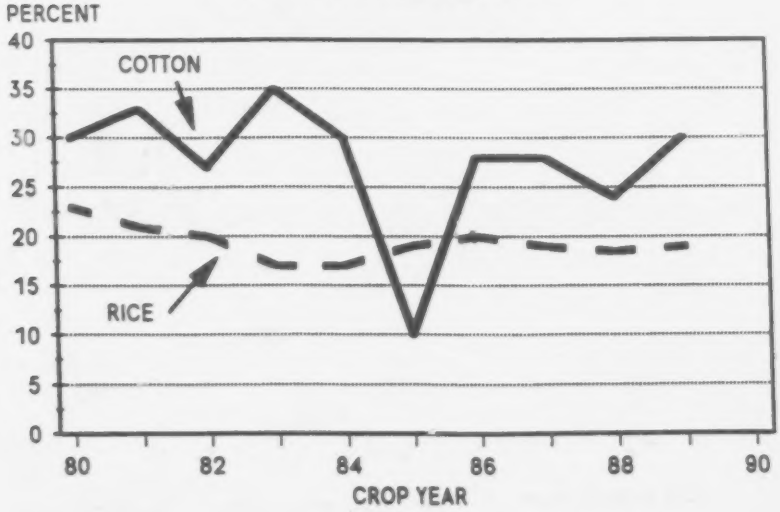
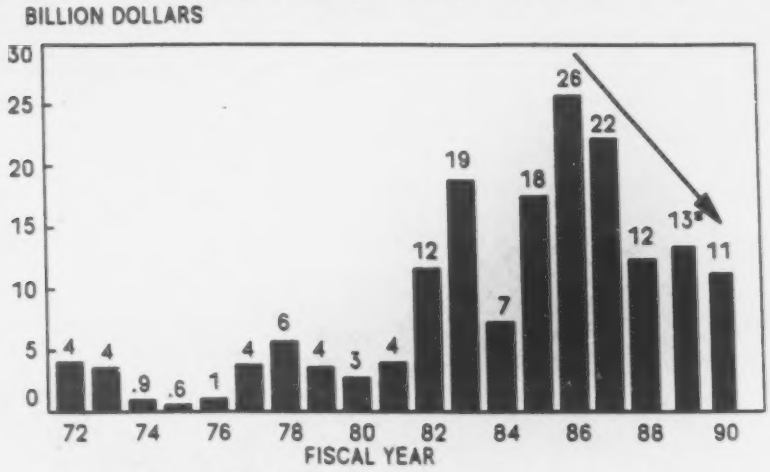


CHART SOURCE: AGRICULTURAL CHARTROOM, NAT'L COUNCIL OF FARMER COOPERATIVES

CHART 7
BUDGET OUTLAYS FOR PRICE SUPPORT AND RELATED PROGRAMS



* Includes $4.4 billion in disaster programs.

CHART SOURCE: AGRICULTURAL CHARTROOM, NAT'L COUNCIL OF FARMER COOPERATIVES

CHART 8
CCC OUTLAYS AS PERCENT OF FEDERAL OUTLAYS

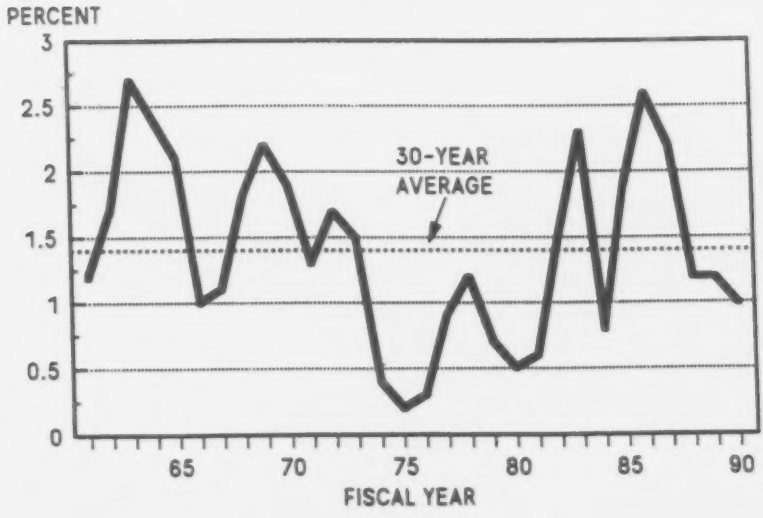


CHART SOURCE: AGRICULTURAL CHARTROOM, NAT'L COUNCIL OF FARMER COOPERATIVES

CHART 9

WORLD TRADE GROWTH STAGNATES

WHEAT, COARSE GRAINS & SOYBEANS

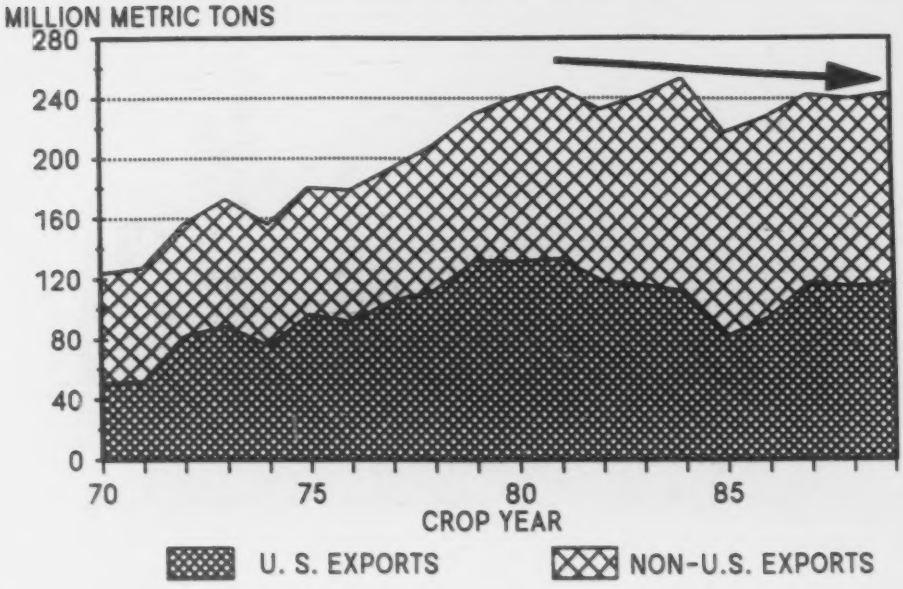


CHART SOURCE: AGRICULTURAL CHARTROOM, NAT'L COUNCIL OF FARMER COOPERATIVES

Senator CONRAD. Mr. Hardy.

STATEMENT OF STUART B. HARDY, MANAGER, FOOD AND AGRICULTURE POLICY, U.S. CHAMBER OF COMMERCE, WASHINGTON, DC

Mr. HARDY. Thank you, Mr. Chairman.

INTRODUCTION

The U.S. Chamber of Commerce appreciates this opportunity to comment on the 1990 farm bill deliberations. The food system as a whole has done reasonably well under the Food Security Act of 1985 and consequently we have a relatively modest list of recommendations for the committee's consideration. There are nine in all, and they are on pages 9 and 10 of the written testimony which I submit to the record. I would like to make a few explanatory comments on these nine recommendations, especially in light of some of the bills that have recently been introduced by members of this committee.

COMMENTS ON RECOMMENDATIONS

With respect to commodity loans, we would underscore what some have said this morning about the benefits of the current formula which has kept loan levels below market price levels and restored competitiveness.

We further call your attention to the recourse loan option in Senator Boschwitz' bill, S. 2251, which merits, we think, serious consideration if not this year, then in future years.

With respect to target prices, we suggest a continuation of the annual incremental reductions authorized in the Food Security Act. This may serve to prevent future arbitrary deductions in deficiency payments down the road apiece as part of the annual budget reconciliation packages.

A third recommendation addresses the major issue of planting flexibility, and here again we agree with legislation introduced by Senators Leahy, Lugar and Boschwitz recently that a normal crop acreage for each farm would be best to replace the current system of crop specific acreage basis.

A fourth recommendation concerns acreage reduction programs, and this may be controversial because ARP's have been an almost hallowed part of our farm program since the 1930's. Nevertheless, we feel that ARP's, acreage reduction programs, have outlived their usefulness because they are not very effective at cutting production and because they send the wrong signals to foreign competitors, just what Jack Block said a minute ago.

However, if the committee chooses not to eliminate ARP's altogether, perhaps you will consider Senator Lugar's proposal to cap ARP's at a certain level. In any case, the Secretary would still be left with authority to offer paid land diversions.

A fifth recommendation is not as controversial. I think there is general recognition that the farmer owned reserve stocks should be made more accessible to the market when free stocks are tight. And I think a number of steps could be taken to do that.

The next recommendation on dairy is simply a reaffirmation of the general policy that is already established in the Food Security Act.

With respect to the Export Enhancement Program, we suggest that it be retained at least until the end of the current round of GATT negotiations.

Next on our list is the Public Law 480 program which we feel should be redirected, at least to the extent possible consistent with humanitarian considerations, toward private sector development in recipient countries, as opposed to government to government assistance.

Senators Boren and Boschwitz have introduced legislation recently, S. 2147, that gets the trade title discussion off to an excellent start, we feel, and includes all of the elements really necessary to come up with an excellent title there.

The final two recommendations involve conservation and the environment. We agree with Chairman Leahy, and others on the committee, that the 1990 bill should include a strong environment title that builds upon the foundation established in the Food Security Act. In particular, the 1990 bill is an opportunity to address water quality and wetlands restoration and to promote a set of agronomic principles that have come to be called integrated crop management.

Senator CONRAD. Can I just intercede there and ask——

Mr. HARDY. Certainly.

Senator CONRAD. Has the Chamber changed its traditional position on private property rights and now advocates the confiscation of private property?

Mr. HARDY. No.

Senator CONRAD. Is that the new Chamber position?

Mr. HARDY. No, quite the opposite, Mr. Chairman. We would agree with the discussion here earlier that the implementation of sodbuster is not proper. We see an alternative approach——

Senator CONRAD. Would you extend that to swampbuster?

Mr. HARDY [continuing]. Which is not stick but which is carrot, which offers farmers incentives to get wetlands out of production, which would involve things like conservation easements. So we see that as an alternative to what is going on right now.

Senator CONRAD. Good. I appreciate that.

Mr. HARDY. Thank you.

CONCLUSION

Let me just conclude by saying that we think that these environmental goals can be accomplished by a slight redirection of the Conservation Reserve Program, permanent easements and more research and extension. And again, thank you, sir, for this opportunity to testify.

Senator CONRAD. Let me ask in regard to your testimony on target prices. You say for wheat, corn, feed grains, cotton and rice should be retained for a transitional mechanism. However, targets should continue to be lowered by small annual increments. Would you eliminate North Dakota from this provision?

Mr. HARDY. Well, we recognize that this is not a popular recommendation given the current policy climate here.

Senator CONRAD. Would you come to North Dakota and defend this? Would you like to join me? I have a couple of meetings I would like to take you to. I would just put you up front, and you would explain this first, and then the violence would be over with, and then I could come.

Mr. HARDY. May I offer this thought, sir. Baseline projections for the next several years by CBO and OMB suggest that farm program outlays will be somewhere in the $10 to $12 billion range. That may prove sustainable here in Congress, but if that estimate is lower than it actually turns out to be, and costs go up to $14 or $16 billion, there will be enormous pressure to cut, and that cut will come in the annual reconciliation package, in a crisis atmosphere, and deficiency payments could well be cut far more than the 2 or 3 percent annual increments that have been provided during the past 5 years in the 1985 act.

If, indeed, deficiency payments are cut, the best way to do it, we think, is up front in an orderly fashion so that everybody knows the rules of the game. Everybody knows what the target price is and what their deficiency payments are likely to be rather than wait until this last minute crisis situation with Gramm-Rudman hanging over them.

Senator CONRAD. Let me just say to you. You must not have watched the last 2 years because we had that phased down approach in the 1985 bill. Did that save us from Gramm-Rudman? Oh, no. We got our Gramm-Rudman cuts on top of it. So I would say to you, if you saw what was happening in my constituency, where North Dakota has led the Nation in personal income decline and was the largest outmigration State in the Nation. There is an economic depression out there that you cannot begin to appreciate. To say that we take target prices that have already come down 10 percent and we continue to reduce them, just freezing them reduces farm income 40 percent by 1994, I mean it is ruination, ruination. And I hope that that somebody appreciates that, what that means, and it is a real disaster.

[The prepared statement of Mr. Hardy follows:]

Statement of the U.S. Chamber of Commerce

ON: ISSUES RELATING TO THE FORMULATION OF THE 1990 FARM BILL

TO: SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

BY: STUART HARDY

DATE: MARCH 21, 1990

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest federation of business companies and associations and is the principal spokesman for the American business community. It represents nearly 180,000 businesses and organizations, such as local/state chambers of commerce and trade/professional associations.

More than 93 percent of the Chamber's members are small business firms with fewer than 100 employees, 45 percent with fewer than 10 employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business--manufacturing, retailing, services, construction, wholesaling, and finance--numbers more than 10,000 members. Yet no one group constitutes as much as 32 percent of the total membership. Further, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the 59 American Chambers of Commerce Abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of its members serving on committees, subcommittees and task forces. Currently, some 1,800 business people participate in this process.

STATEMENT
on
ISSUES RELATING TO THE FORMULATION OF THE 1990 FARM BILL
for submission to the
SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
for the
U.S. CHAMBER OF COMMERCE
by
Stuart Hardy*
March 21, 1990

The U.S. Chamber of Commerce appreciates this opportunity to express its views on the formulation of the 1990 Farm Bill.

Production agriculture, once a nearly isolated economic activity, has become thoroughly integrated into a total food and fiber system, from supply industries to consumers. Altogether, the system accounts for one-fifth of the annual gross national product of the country and one of every five jobs in the national labor force.

Farm and commodity organizations rightly have a special role in the process of drafting omnibus farm and food legislation because producers are the chief beneficiaries of commodity programs that are the core of such legislation. However, other links in the food and fiber chain of industries also have a legitimate role in the legislative process, as well as consumers, taxpayers, environmentalists and other affected parties. Farm commodity programs have ripple effects throughout the food industry and beyond. Consequently, the "iron triangle" of farm organizations, Congress and the Department of Agriculture must be expanded to include new participants in the policymaking process representing all segments of an increasingly interdependent food system.

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* Stuart Hardy is Manager, Food and Agriculture Policy.

Unlike other organizations, the Chamber's membership is drawn from all segments of the food chain, including suppliers, producers, traders, brokers, processors, distributors, wholesalers and retailers. This broad-based membership gives the Chamber a unique, system-wide perspective on food and farm policy and the ability to bring valuable insights to the policy dialogue. This broad vision is especially needed to restore balance to a legislative process too often dominated by commodity interests.

This statement reflects the Chamber's interest in how omnibus farm and food legislation affects the economic health of the total food system. Recommendations are restricted to those elements of the farm bill that affect the entire system.

The Food Security Act of 1985: A Transitional Measure

The Food Security Act of 1985 (1985 Act), together with a weaker dollar and rising world demand for agricultural products, is widely credited with restoring farm prosperity. The numbers are impressive. Net cash income has doubled under the 1985 Act, exports have risen 70 percent, land values stabilized and are once again rising, and program costs are trending downward after reaching a high of $26 billion in 1986. Farm-related businesses have also benefited from the 1985 Act, especially from policies that have spurred export activity.

Like its predecessors, the 1985 Act is an evolutionary measure containing large areas of policy continuity. But there was one dramatic break with tradition: nonrecourse loans for wheat, corn, feedgrains and soybeans were sharply reduced, and "marketing loans" for rice and cotton were mandated in an effort to regain world market competitiveness. In addition, generic and crop-specific certificates were introduced as a means of moving Commodity Credit Corporation (CCC) stocks into the marketplace. A third feature was the Export Enhancement Program (EEP), a temporary, tactical program aimed at rebutting unfair trading practices of other exporters in specific markets.

To this extent, the 1985 Act is a transitional measure, moving

agriculture from an era of domestic market orientation and strict price and supply regulation to an era of greater exposure to global market conditions. However, the transition is not complete. Commodity program incentives and constraints continue to skew planting decisions in ways inconsistent with market signals.

Specifically, there are several areas of concern that may threaten farm and agribusiness prosperity in future years. At the top of the agenda is the pressing need for greater planting freedom.

Planting Freedom Needed

Current commodity programs unintentionally discourage farmers from shifting acreage from target-price crops (wheat, corn, feedgrains, cotton or rice) to other crops, even when market conditions strongly signal for a shift. In particular, the corn program has an undesirable effect on soybean and sunflower plantings. Acreage devoted to these oilseed crops has declined despite favorable market conditions. Farmers opt for corn because of corn's relatively attractive target price and because farmers need to safeguard their corn base to protect their eligibility for future program benefits. A similar problem is affecting oats, causing domestic processors to import part of their requirements. Unlike oilseeds, oats have a target price, and growers are eligible for deficiency payments. However, the oats target price ($1.50/bu.) is low relative to that of corn and other target-price crops.

In a dynamic global market, growers need the flexibility to shift from one crop to another to seize profits and capture export markets. At present, a farmer who responds to market signals and plants a nonprogram crop is penalized by diminishing his acreage base for a target-price crop. The need to establish and maintain a crop-specific base history also encourages monoculture and discourages crop rotation, a traditional crop management practice that enables growers to be less dependent on chemical inputs.

Crop-specific acreage bases were introduced in the Agriculture and Food Act of 1981 to tighten production control programs. Bases were defined as the average acreage planted to a specific program crop during the two previous years. From then on, growers needed to establish a

crop-specific base for wheat, corn, feedgrains, upland cotton or rice in order to be eligible for target-price protection and deficiency payments. Growers were permitted to substitute soybeans and sunflowers for program crops without affecting their bases.

However, the 1985 Act changed the rules for establishing and maintaining base acreage. The two-year average was changed to a five-year average, and soybeans and sunflowers were no longer acceptable as substitutes for target-price crops for purposes of base calculation. Designed to give the Department of Agriculture tighter controls on production, the rule changes had the unintended effect of discouraging oilseed plantings. Soybean and sunflower production has trended downward, and U.S. exports have declined, despite a growing world demand for oilseeds.

Congress addressed the problem through the Disaster Assistance Act of 1988, by giving the Secretary of Agriculture discretionary authority to permit soybean and sunflower plantings on 10 to 25 percent of wheat, corn, feedgrain, cotton and rice base acres in 1989 and 1990 without any loss of base, provided the resulting increase in plantings would not unduly depress prices. Similarly, oats may be planted on corn acres without loss of base. Farmers have responded positively, and plantings are likely to increase. Yet the basic problem remains -- oilseeds must still compete against target prices, not market prices. The Chamber applauds the efforts of Chairman Leahy and Senator Lugar to address this problem through their Normal Crop Acreage Farm Base proposal.

Acreage Reduction Programs

Another problem area results from the Department of Agriculture's excessive reliance on annual acreage reduction programs (ARPs) as a tool to control crop production and lower farm program costs. Growing

evidence suggests that the forced idling of millions of cropland acres undermines U.S. competitiveness by pushing up production costs and causing export markets to be forfeited due to the lack of grain supplies.

Any industry is severely disadvantaged when it operates well below its productive capacity. Fixed assets are idled, unit production costs rise, and competitiveness declines. This is especially true of U.S. agriculture, whose competitive edge is its highly productive cropland and its handling and distribution network. At a time of expanding world markets for farm products, government policies continue to idle nearly one-fourth of the total productive cropland base -- 78 million acres in 1988, about 60 million acres in 1989, and a similar amount projected for 1990. Even with good growing conditions this season, grain trade analysts are now predicting that the U.S. will have insufficient supplies to meet expanding global demand.

In June, 1990, Secretary of Agriculture Yeutter announced a five percent ARP for wheat in 1990, despite the fact that free stocks of wheat are at a 10-year low. A zero ARP was precluded because current program rules would increase budget exposure to unacceptable levels. Target-price protection would have to be extended to all wheat produced in 1990, even wheat grown in excess of producers' wheat bases.

The 1985 Act imposed limits on the Secretary of Agriculture's authority to mandate ARPs, and this initiative should be continued and strengthened in the 1990 bill with the goal of eliminating these acreage-idling programs.

Freeing Stocks

Another area of concern is the difficulty of moving Farmer Owned Reserve (FOR) and CCC stocks into the market when they are needed. Commodity certificates were introduced several years ago to free CCC

stocks that otherwise would have remained locked up, but this is not a permanent solution. If "certs" are phased out, CCC stocks will once again become virtually isolated from the cash market, unless release prices are lowered substantially.

With respect to the FOR, we suggest that the committee not only lower release prices, but also consider further restrictions on the total amount of grain that can be entered into the reserve, the length of time grain can remain in the reserve, and the method of making storage payments.

Modifications to current stock policy will help to ensure that the U.S. does not again become the world's residual stocks holder by default.

Leveraging Trade with Aid

Developing countries offer the potential of highly promising markets for U.S. food and farm exports. But export markets cannot be developed until indigenous economies grow strong enough to boost local living standards and spur effective consumer demand. The development of free and healthy private sectors in "Third World" countries offers the only prospect of generating wealth, improving diets, creating import markets and moving these countries from the category of aid recipients to the ranks of cash-paying trading partners.

Regrettably, U.S. aid policy has done little to foster indigenous free enterprise. Aid programs focus almost exclusively on famine relief and emergency human needs. These are essential humanitarian activities. However, the longer-term goals of foreign assistance -- economic and market development -- should not be overlooked.

The new farm bill provides an opportunity for Congress to correct this situation. In particular, Titles I and III of the Agricultural Trade Development Assistance Act of 1954, Public Law 83-480, as amended, should be reexamined to determine what measures should be taken to place greater emphasis on market development and the use of aid to stimulate demand and the ability to pay.

Drafting Law for the Future, Not the Present

The 1985 Act expires at the end of the 1990 crop year, and the process of drafting replacement legislation is well under way. The new legislation provides an opportunity to address a number of current concerns, including those discussed in the previous section. However, the authors of the new bill must look to the future as well as the present because their work will govern agriculture well into the decade of the 1990's. Conditions then will likely be very different from the present.

On the global front, market reforms are rapidly being introduced not only in Eastern bloc countries but also in many of the centrally planned economies of the developing world. Meanwhile, the European Community's 1992 single market plan may rearrange the economic map of the world and create the world's largest trading bloc and consumer market.

A second development of major significance may be the increase in public pressure throughout the world for more stringent environmental and health-related controls on both farms and agribusinesses.

In addition, new technologies -- both biological and informational -- are becoming available to farm producers and the food industry. Biological breakthroughs mean more products at lower costs while access to new forms of information will help managers to cope with risks and make better production and marketing decisions. The effect on the farm sector may be to accelerate the trend toward larger, more specialized units. The effect on the food industry may be an acceleration of the trend toward niche or specialized marketing, more vertical integration and more global sourcing.

These and other global developments will almost certainly create a whole new set of challenges and opportunities for the U.S. farm and food sector during the 1990's. The 1985 Act successfully addressed

many of the needs of the mid-1980's, but competitiveness is a moving

target, and Congress will have to do more than "fine tune" the current programs in order to make them equal to the challenges of the next decade.

Policy Goals of the New Farm Bill

The Chamber suggests four basic objectives for the U.S. food and agricultural industry in 1990 and beyond. They are:

1. greater opportunity for farmers and ranchers to attain profitability in the marketplace;
2. improved competitiveness of U.S. food and agriculture in world markets;
3. an abundant and safe supply of affordable food for U.S. consumers; and
4. a sustainable, environmentally sound production system.

These broad objectives cannot be achieved through government mandates. They can only be realized by the private sector working in concert with prudent public policies that enable the food and agriculture industry to make needed adjustments to rapidly changing conditions. In particular, government programs designed to provide income and other assistance should do so in ways that do not distort the domestic or international market.

A dynamic, highly competitive agricultural economy requires greater flexibility in farm program management. This measure of discretion, however, should operate within the stable context of consistent, long-term policy objectives. Producers should have some assurance that the rules of the game will not change in mid course, and they should not be subjected to the policy shifts and zigzags that have all too often characterized recent farm policy.

In support of these goals, the remainder of this statement suggests 10 farm program modifications that should be included in the 1990 farm Bill.

Recommended Modifications

The Chamber recommends 10 specific modifications of current policy:

1. Nonrecourse Loans for wheat, corn, feedgrains, cotton, rice and oilseeds should continue to be set by formula at levels that do not interfere with market prices. In addition, Congress should consider the substitution of recourse for nonrecourse loans.

2. Target Prices for wheat, corn, feedgrains, cotton and rice should be retained as a transitional mechanism providing growers with income protection. However, targets should continue to be lowered by small, annual increments until such time as deficiency payments are reduced to sustainable levels. There is also a need to rebalance targets in relationship to one another and in relationship with nonprogram crops to reflect changes in feed and food value.

3. Acreage Bases for wheat, corn, feedgrains, cotton and rice should not be crop-specific. Rather, they should be combined with normal oilseed plantings into a single farm base for each producer. (This recommendation is contingent on the rebalancing of targets. If targets are not readjusted in relation to one another, any shift to a single farm base would further jeopardize plantings of crops with no or low target prices.)

4. Annual ARPs should be eliminated as a policy tool.

5. The Dairy Program should continue to be governed by a formula that balances supply and demand.

6. The EEP should be reauthorized as a tactical measure to assist U.S. exporters in specific markets for specific commodities in response to competitors' unfair trading practices. EEP criteria should be made more transparent to both buyers and exporters. EEP should not be institutionalized as a permanent feature of U.S. policy, nor should it be operated as a national grain board.

7. The P.L. 83-480 Program (Titles I and III) should be redirected toward projects that will boost private enterprise and generate demand for U.S. food and farm exports.

8. The Conservation Reserve Program should be continued and participants should be allowed to extend contracts beyond 10 years. The goal of 40-45 million acres should be reaffirmed but not increased. Eligible acres should be broadened to include the full range of environmentally damaging land uses.

9. Sustainable Agriculture principles are attractive under certain circumstances because less intensive use of pesticides and chemical fertilizer may lower farm production costs, reduce chemical residues in food and ground water and sharply curb chemical run-off from farm fields into the nation's waterways. Increasingly, farmers and ranchers are moving voluntarily toward 'integrated crop management' (ICM). However, some ICM or sustainable agriculture practices require further research and experimentation to determine how they may best be applied to different crops, soil types and growing condition. Sustainable agriculture principles should not be confused with "organic" farming or the total elimination of synthetic chemical inputs, which are needed to provide pest- and disease-free crops at affordable prices.

The Chamber appreciates this opportunity to present its views on the direction of agricultural policy and looks forward to working with the Committee on Agriculture on this vital legislation in the months ahead.

Senator CONRAD. Mr. Lesher.

Mr. LESHER. Thank you very much.

Senator CONRAD. Given the fact that your views are so well-known and given the lateness of the hour, I hope you can make your comments brief, Bill. Good to have you here.

STATEMENT OF WILLIAM G. LESHER, PARTNER, LESHER & RUSSELL, INC., REPRESENTING THE AGRICULTURAL POLICY WORKING GROUP, WASHINGTON, DC

Mr. LESHER. Thank you very much.

INTRODUCTION

Like the other witnesses, I have a prepared statement to be submitted for the record and will summarize my remarks.

Senator CONRAD. And I will actually read it.

APWG

Mr. LESHER. I appreciate that. I am testifying on behalf of the Agricultural Policy Working Group (APWG), which is a group of agricultural businesses that was formed in 1987 to add to the debate and hopefully improve agricultural policy over the long term. As a part of this effort, they commissioned five economic studies, prepared by independent economists, on various aspects of farm policy. And after reflecting on the results of these studies they came to some conclusions and policy positions.

THE 1985 FARM BILL

First, I want to share Wayne Boutwell and others' views that the 1985 farm bill was a very good bill. Our studies support this view. That bill was developed in some tough times, and the Congress developed an ag policy that served the Nation well.

You can look at net farm income, cash farm income, farm debt, exports, et cetera, for they all have improved. One also realizes, however, that there are particular States like yours, Senator, and other regions or areas of the Nation that are still not doing so well because of drought or because of some other natural disaster. The same can be said for individual farmers. But when you look in the aggregate, the 1985 farm bill has served agriculture well.

The Agricultural Policy Working Group is not taking positions on many issues that are important to this committee. We realize that ag research, crop insurance, ag export assistance and many other areas are important to agriculture, but the Agricultural Policy Working Group views that other organizations or businesses are in a better position to express their views. And we are not up here trying to suggest how much you should spend on farm income supports. It could be $5, $10, $15, $20 billion a year. That is a decision for the Congress and the commodity groups and the administration to make. In the end it is a political decision how much is spent.

FLEXIBILITY

Even though the 1985 farm bill was a good bill, it is not perfect. Our economic studies suggest that current policy needs two refine-

ments that are important. One concerns planting flexibility. Now one can talk about flexibility many different ways, and it means a lot of different things to a lot of different people. There are two reasons for flexibility and they are fairly simple ones. It is hard to argue, based on economic logic, that allowing a farmer to produce what the market is signaling to grow that year will not either increase farm income or reduce farm bill costs.

The second reason for flexibility concerns the environmental benefits. If, in fact, we do not allow some producers to do more crop rotations and practice best management practices, then, in fact, I think we lose environmental benefits. I think Senator Daschle made a good point, that we have to allow farmers to use best management practices in the future. And I think you have to interject some flexibility to accomplish this. And the reasons are you are not allowed to grow what the market suggests because farmers are locked into certain production patterns based on target prices. For example, since 1979, our share of world soybean production has gone from 65 to 50 percent. Our share of world soybean trade has plummeted. And we have lost 13 million acres in soybean production while South Americans have increased their average. U.S. farmers choose to grow corn or some other crop to receive deficiency payments and protect their bases.

And the thing I object to is this type of inflexible policy helps foreign producers rather than our own. And I see no reason to do that. Now, one can ask what kind of flexibility is needed? Well, and I think the Leahy-Lugar bill could serve agriculture well and I think it could be made to fit the needs of modern U.S. agriculture. I think the administration's position on flexibility could also be made to fit. And frankly, Mr. Chairman, there are 25 other options that could also help.

I have two suggestions, though, on flexibility. One is whatever you do, you must not take payments away from the acreage that you allow to flex. I know this goes against some of my friends in the farm groups in the commodity organizations. But I think you have to have neutral acres to the market for planting flexibility to work and solve some of the problems I outlined earlier.

And second, I know that there is a lot of concern about the so-called decoupling or delinking aspects of planting flexibility. I frankly do not find that argument a valid one. The Europeans are subsidizing heavily and everyone else has restrictive farm policies. So the United States has a right to spend $10 or $12, or $15 billion on farm programs until we can negotiate freer agricultural trade globally. So this idea that you are going to lose farm programs because of flexibility doesn't make sense.

Senator CONRAD. Bill, let me just intercede. Let me just ask you this question. I tell you I was amazed. I was in Fargo, North Dakota the other day. I had Senator Kerrey and Senator Daschle with me. And we had a reporter there say to us this farm program is just nothing but farmer welfare. It is nothing but a welfare program. Well, we said, no, it is not a welfare program. Welfare is when you get something for nothing. Well, with this program you get food. And we have chosen as a society to structure payments to farmers in two ways: what they get from the market and what they get from the Government. And the people who are being sub-

sidized here are the consumers. We have the lowest cost of food in the history of mankind for any society, and what are you talking about welfare for farmers.

I tell you something, if we decouple, the hard reality for an awful lot of folks is going to be saying that this is a welfare payment.

Mr. LESHER. But it is not a welfare payment. And, we do not do a good enough job of expressing the value of farm programs if they view it that way. In the end, I realize that most of agriculture is scared of the total program base being delinked. But it is too important to the health of the farm economy if we don't give farmers some type of planting flexibility. One could start with 25 percent of a program crop base flexible, and have it truly neutral to the market. I think that is about 70 million acres. That would take you a long way in trying to solve the environmental and erosion problems agriculture faces today.

Senator CONRAD. The fact is it would be flexibility at the margins where it is most important.

Mr. LESHER. That is right. And so in the end the Agricultural Policy Working Group thinks at least you need to set 25 percent of the program crop base to be flexibile—giving farmers a chance to grow what the market needs without reducing farm income.

Senator CONRAD. Well, I tell you my own view is closely in alignment with that. And, reality is that we need to operate at the margin, and a number like 25 percent may be a pretty good number. We need to experiment. We have to move into this with some comfort that we are not throwing the baby out with the bath water.

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Mr. LESHER. And one other issue that the Agricultural Policy Working Group is interested in concerns the elimination of the acreage reduction programs. The Agricultural Policy Working Group supports a conservation reserve at 40 million acres. But, beyond that, acreage reduction programs have outlived their usefulness. Their own value is for budget purposes—that is to reduce our program costs. Others around the globe do not control production but we still cut back acreage—sometimes close to 80 million acres a year. It is a program that aids and abets foreign producers rather than our own farmers. In short, I find, from an intellectually and from an economic standpoint, it is hard to justify taking acreage out of production beyond the conservation reserve. And so we would suggest that you consider Mr. Chairman, that acreage reduction programs be eliminated.

If you would do something along those lines concerning planting flexibility and elimination of acreage reduction programs, you would add to your farmers' income and increase their efficiency. You would make the 1985 farm bill even better, and would better position agriculture for the decade ahead. You cannot back off from the European challenge to subsidized exports and other nations' restrictive trade policies and import barriers. Thank you very much, Mr. Chairman. I would be glad to answer any questions you may have.

Senator CONRAD. Mr. Lesher, maybe just one question, and that would be, we are talking about being down to .8 of 1 percent of Federal budget share for agriculture. I have here world food expenditures, which lists the United States at the bottom. We have the lowest cost of food. Even when you put in farm program expenditures, we are the lowest country in the world.

Mr. LESHER. That is correct.

Senator CONRAD. And now we get people telling us well, you have to cut, cut, cut. I mean there is a place where you just do not cut anymore. I would be interested in your view. I know the Agricultural Policy Working Group did not take a position on that, but I would ask you personally. You have a long background in this area, and are respected. I have talked to you over the years myself, even back in the time when I was a tax commissioner, I came and visited you in the old days. And what is your view in terms of maintaining agriculture?

Mr. LESHER. In a perfect world, it would be hard to justify spending $10 or $15 billion a year on farm programs if, in fact, we had global free trade in agriculture I could not make an argument to spend the sums we spend, Mr. Chairman. But that is not the case.

My own view is that it is going to be a long time before we do significantly reduce world trade barriers for agricultural commodities and products. So, until that happens, we cannot back away from supporting agriculture in a significant way. Now, I think $10 billion is probably a minimum that, in fact, our society should expect to spend on farm programs. You may say we need more. Some say we need to spend much less. But I do not think we can back away from $10 billion a year because if you do, you are signaling to the Europeans and to everyone else around the world the United States is to willing to down-size its agriculture economy as theirs grows. You are backing away from and letting them have world markets. We cannot afford to do that and expect to have a healthy and prosperous farm economy.

Senator CONRAD. Let me just add my own voice to what you have just said. I have spent a lot of time with our European friends, spent a lot of time with the chief negotiators for the Europeans, and I can tell you, I know their reaction when they saw this budget submission. They are laughing at us. I can tell you they think the United States is ready to flinch, ready to back away. And that their long-term strategy is going to prevail.

And the question in our society is are we going to find the political will to stay the course and be in the fight, and if we are not, I tell you they are going to keep on moving.

Mr. LESHER. The challenge to this committee and to you and others in agriculture is to face the facts that there are limited resources. And we only are going to be allowed to spend so much on agriculture. So, we need to refine in the 1985 farm bill approach so that you get the most from that $10 billion. I think you can get the most from that $10 billion if you do interject some planting flexibility and if you look at acreage reduction programs with a skeptical eye. I believe we can have the highest farm income for your farmers at a given level of government expenditure by modifying current laws as the Agricultural Policy Working Group suggests.

Senator CONRAD. Let me just say that I do not think it is unreasonable to ask for 12.5. I mean we would still be substantially below our traditional share of the Federal budget. We would be at about 1 percent at that level, and I do not for a minute flinch from being able to defend that, and I intend to defend that. And I intend to argue forcefully for that kind of commitment from the American society because I think to do less is a serious mistake. When we send the signal to the Europeans that we are going to cut 20 percent, if we did that in the middle of wartime and cut the defense budget 20 percent, somebody would figure out you were not very serious about winning the war. And the fact is we are in a trade battle, and the question is whether the United States going to fight or are we going to run?

Mr. LESHER. I think what you can do, too, is about sound macroeconomic policy. Many persons forget about macroeconomic policy and other policies that really do impact agriculture probably more than the farm bill will we are talking about.

And I feel as strongly about the deficit as you do or maybe more so. I am very conservative and I think that you could do the most for agriculture by getting the deficit down to zero.

Senator CONRAD. I believe that as well. I believe that very strongly. Bring down interest rates. Bring down that deficit. We would do more for agriculture probably than any farm bill we are going to write.

Mr. LESHER. Yes.

Senator CONRAD. And I tell you it is a tremendous challenge. I think Mr. Rostenkowski, whether you agree with every detail of his plan—I do not happen to agree with every detail—but I think the man has very courageously reopened the debate in a serious way, and that all of us who are serious about seeing the deficit come down ought to come forward and try to add some momentum to this effort to seriously talk about reducing the deficit this year. And I think it means everybody getting out of their bunker, everybody, Republicans, Democrats, conservatives, liberals, and saying, you know, we have to do something that goes beyond this business as usual. And I fervently hope that this year we do that, and everybody gets out of their political bunker.

It is very secure for us each to hide behind our traditional political argument. But if we do that, we are not going to solve the problem, and that would be a tragedy for this country, and it would be a tragedy for agriculture. Well, again, thank you for your participation.

Mr. LESHER. I appreciate the opportunity to appear before this committee. Best of luck to you and others as the farm bill deliberations begin.

[The prepared statement of Mr. Lesher follows:]

The Agricultural Policy Working Group and the 1990 Farm Bill

Introduction

Mr. Chairman, it is a pleasure for us to be testifying today before your Committee. We commend you for holding these hearings on important farm policy issues in preparation for drafting the 1990 Farm Bill. The Agricultural Policy Working Group (APWG)* was formed in 1987 to contribute to the debate and improve U.S. agricultural policy. The APWG believes in a healthy and profitable farm economy that is sensitive to environmental issues, the vitality of rural America, as well as concerns about farm income.

Toward these ends, the APWG published five individual economic reports focusing on various aspects of U.S. agricultural policy that were prepared by independent economists. After reflecting on the results of these studies, the APWG has concluded that the 1985 Farm Bill has contributed to a significant recovery in the agricultural economy. However, study results demonstrate that current policy needs further refinement if the agricultural sector is to continue its growth. In essence, the U.S. needs to build upon the solid foundation and direction established by the 1985 Farm Bill.

The APWG supports efforts to continue moving U.S. agricultural policy towards greater market orientation. For further progress to be made, current agricultural policy needs to be modified. Specifically, increased planting flexibility and elimination of annual acreage reduction programs, are necessary to continue the improvements recently made in the farm economy.

The APWG believes that increased planting flexibility in farm programs can increase U.S. agriculture growth potential, improve farm income and lead to an improvement in the quality of the environment. Rigidities built into the existing commodity programs have discouraged U.S. production of several crops, including soybeans, sunflowers and

* Current APWG membership includes Central Soya Company, Inc., IMC Fertilizer Group, Inc., Louis Dreyfus Corporation, Monsanto Company, Nabisco Brands Inc., and Norfolk Southern Corporation.

oats, allowing foreign production to meet the growing world grain and oilseed demand. For example, since 1979, U.S. share of world soybean production has dropped from over 65 percent to under 50 percent while its share of world soybean trade has gone from 84 percent to 60 percent. The U.S. share of world soybean oil and meal trade has plummeted -- both going from near 40 percent of the world market to about 16 percent today. The APWG believes that increased flexibility will allow farmers to rotate their crops more frequently using best management agronomic practices and produce a wider variety and quantity of commodities that the market signals for -- enhancing farm income and the quality of the environment. **The APWG supports policies that would free-up all of a producer's crop acreage base to grow on that land whatever program or oilseed crop the market indicates a need for, or good agronomics would dictate -- without impacting farm income.**

Since 1982, the U.S. has taken an average of over 50 million acres out of production each year through supply control programs. Some years close to 80 million acres have been idled. The studies sponsored by the APWG have shown that these programs have reduced our competitiveness and market share, lowered the efficiency of the agricultural sector and reduced rural economic activity while doing little to reduce farm program outlays over the long term. Many small rural communities are disappearing. Trade policy experts are concerned about the negative impacts of U.S. supply controls as foreign producers expand production. Farmers realize that lower acreage reduction programs mean greater farm income. **The APWG supports the elimination of annual acreage reduction programs while maintaining the Conservation Reserve.**

APWG 1990 Farm Bill Position

There are three very important policies that impact the U.S. farm economy. First, macroeconomic policy has a direct and large impact. Second, the global trade laws and farm policies of other nations are significant. And, finally, U.S. domestic farm policy has implications for the economic health of the sector. However, the 1990 Farm Bill only affects U.S. domestic farm policy and it is for this reason that the APWG focused its attention on the 1990 Farm Bill.

The APWG has taken time to reflect on the economic analysis conducted in each study. The results made clear that the 1985 Farm Bill has contributed to a significant recovery in the agricultural economy. But the analysis also indicated that the 1985 Farm Bill needs to be refined if the agricultural sector is to grow in the future. And, if not refined, the U.S. farm economy could even stagnate and lose some of the gains achieved recently.

The central question is "what specific policy modifications are needed in order for U.S. agriculture to continue its growth in the 1990's?" After sorting the "grain from the chaff" it became clear to the APWG that increased planting flexibility and eliminating annual acreage reductions are the answers to the question just posed. The reason for this conclusion is a simple one: Farm program benefits are substantially reduced because of planting inflexibility and the large amounts of acreage idled. It is a waste to provide $10 billion a year to enhance farm incomes and rural America and have a substantial portion of it eroded away by:

1. Increasing production costs;

2. Stimulating the surplus production of some commodities while shorting the market of others;

3. Losing exports and market-share;

4. Weakening economies of rural towns due to less economic activity associated with agriculture;

5. Stifling a farmers' ability to follow best management practices; and

6. Reducing the pressure on other nations to want to reform global trading rules.

There are several ways to achieve increased planting flexibility. Most of these options will lead to increased farm income and greater economic growth in rural America. The Leahy/Lugar approach or the Bush Administration proposal both seem reasonable and would be effective. There are also many other options which would address the rigidities that exist in our current program. However, under any policy option that the Congress may consider, at least 25 percent of the program crop base needs to be flexible (payments not taken way and bases protected). Freeing up 25 percent of the 275-300 million acre program crop acreage base (or roughly 70 million acres) will go a long way towards addressing of the serious constraints that exist in current policy.

Concerning the elimination of annual acreage programs, the APWG position is straightforward. Since our foreign competitors do not reduce production, the beneficiary of our current policy is foreign producers and governments. There simply is no justification for their continued use.

The APWG strongly believes these two policy modifications -- increasing planting flexibility and eliminating annual acreage reduction programs -- will build on the

substantial reform that was provided in the 1985 Farm Bill and would allow agriculture to grow and prosper in the 1990's.

The APWG as a group does not have any other positions on the 1990 Farm Bill. For example, the APWG believes that the amount of money spent on farm commodities depends on farmers' needs and the overall budget situation and, therefore, the Administration, the Congress and general farm groups and commodity organizations need to make these determinations. Also, the APWG realizes that there are many other important issues that will be addressed in the 1990 Farm Bill, such as agricultural trade, food aid, research, conservation, environment, domestic food assistance, credit, farm-owned reserve, and crop insurance, but believes that other individual organizations and business are best suited to address these concerns on their own.

Formation of the APWG and Summary of Studies Conducted

The APWG has reached its 1990 Farm Bill positions in a careful and factual way. The APWG was formed in 1987 when some advocated reverting back to mandatory production controls for most price-supported commodities or increasing the amount of acreage taken out of production by today's voluntary programs. As the annual cost of the 1985 Farm Bill escalated, strict supply controls became a viable alternative to some.

But, instead of strictly focusing on the economic effects of mandatory supply controls, the APWG decided to step back and do five different studies on farm policy before it established a position for the 1990 Farm Bill. The motivating force behind the APWG is that a healthy and profitable agricultural economy benefits all -- farmers, consumers and agricultural business -- and that everyone is "in it together" and has a stake in the outcome. The following provides a brief summary of each of these reports.

1987 Farm Policy Issues, Concerns and Alternatives

The first APWG study was completed in March 1987 and was entitled **"1987 Farm Policy Issues, Concerns and Alternatives."** The thrust of this study was to provide a historical perspective to U.S. farm policy and broadly define the possible options for future farm policy.

Concerning an historical perspective, the Executive Summary of this study states:

"The basic approach to farm policy since the 1930's has been to support commodity prices, i.e., to hold them at specified levels in an attempt to stabilize or raise farmers' incomes. Since support levels have been set through the political process, they often have been at variance with market prices. When supports are well above market-clearing prices, farmers produce more and consumers use less, thus exacerbating supply-demand imbalances. As a result, various types of production controls have become regular features of the policy landscape.

During most of this 50-year period, U.S. agriculture was producing only for a domestic market. With foreign markets only minor outlets for U.S. farm products, international effects of the programs as well as macroeconomic policy effects were not major considerations. That changed abruptly in the early 1970's. Several forces combined to greatly increase global demand, and U.S. exports grew from $7 billion in 1970 to near $44 billion in 1981. They accounted for one of every three acres of cropland, over 30 cents of every dollar of farmers' gross sales, and strong employment and income gains across broad segments of the economy. The world markets became tremendously important, not only to the farm sector but to rural America, agribusiness, and the entire nation. The 1981 farm law was adopted in this euphoric atmosphere and reflected this positive outlook.

After 1981, however, export growth was sharply curtailed. A global recession significantly slowed demand while crops were large and supplies abundant. With the dollar appreciating rapidly and loan rates propping up falling commodity prices, U.S. competitiveness was reduced substantially. Meanwhile, foreign production expanded, some competitors increased use of unfair trade practices, and the United States lost a disproportionate share of the shrinking world market. It quickly became apparent that the environment of the 1970's was atypical, a departure from longer-term trends.

By 1985, when the current farm bill was developed, export sales had fallen more than 30 percent from 1981, prices were down and farm asset values, bid sharply higher during the inflationary period of the 1970's, were rapidly depreciating.

> Farmers most highly debt-leveraged were under severe stress. Farm lenders, including the Farm Credit System, saw the quality of their loan portfolios severely reduced and their continued viability threatened. The Congress had to address two critical economic realities: loss of foreign markets and declining export sales and maintenance of farm incomes as the financial base of the farm sector deteriorated. It attempted to do both. It is against this backdrop that farm policy issues continue to be debated today.

This study also looked at alternative policy approaches. While there are hundreds of possible farm policies that can be developed, the study concluded that there are three distinct approaches, each having several variants: high price supports defended by direct or indirect supply controls; market-clearing loan rates with commodity-specific direct payments to supplement farmers incomes; and complete separation of income support from commodity pricing. The study suggested that the three approaches are quite different in their structure and likely economic effects on farmers, consumers, taxpayers, rural communities, agribusiness and even resource conservation.

The study did look at a fourth general farm policy option that involved targeting of program benefits. However, the study concluded that this approach was not really a viable farm policy option for three reasons. First there is great difficulty in determining what constitutes a small or medium family farm. Second, it is hard to determine who is in need and who is not due to off-farm income. Third, with strict limits on payments, pressures are created almost immediately for change or finding ways to avoid them. The study concluded that if rural commercial farm policy is the goal, targeting schemes have little potential use. And, if social policy is also a goal, then social and economic goals can be pursued much more efficiently if done separately.

Economic Impacts of Commodity Supply Controls

Since strict supply controls was one of the three major farm policy directions outlined in the first study and emerging as an alternative to the 1985 Farm Bill, the APWG decided to do its second study on supply controls. Entitled **"Economic Impacts of Commodity Supply Controls"**, the summary of the study states:

> "Our past experience with supply control programs has been mixed. Price support and supply control programs have succeeded in raising prices and improving some farmers' income in the short run. But, they have proven counterproductive over time, particularly since foreign markets have become so

important, U.S. experience of more than a half-century with supply controls has produced some valuable lessons. These suggest that supply controls:

Benefit most those who own the capital assets when the programs are begun. The short-term benefits of higher prices and income are quickly capitalized into asset values, primarily land. Higher support prices raise costs which must be borne by renters and the next generation of farmers who must pay more for an adequate size farm unit.

Benefit some farmers at the expense of others. Higher short-term prices for crop farmers mean higher feed prices and reduced profitability for livestock farmers.

Reduce efficiency of U.S. farming and all stages beyond the farm gate by causing under-utilization of capacity which increases their costs.

Limit market growth and promote development of substitute products. High price supports and supply controls dampen commodity utilization and encourage users to find cheaper alternative products (for example, development of synthetic fibers replacing cotton).

Impose costs on all consumers and workers and businesses in the agricultural and general economy that are greater than the benefits received by some farmers and landowners as compared to the costs borne by society in general.

Can contribute to trade restrictions and confrontations through the increased use of export subsidies and import barriers to regain market-share and limit entry of lower-priced imports.

This study concludes that as the amount of acreage taken out of production expands through either mandatory or voluntary programs, overall costs to society grow while the benefits diminish. Large supply controls programs can raise farm prices and the income of program crop producers in the short-run. However, in the long-term, these benefits are eroded by reduced international competitiveness of U.S. agricultural products, reduced domestic consumption, and increases in production costs caused by such programs. The primary beneficiaries are landowners at the time such programs are established, whose

land values increase as a result. These benefits come at significant cost to the long-term competitiveness of U.S. agriculture, to livestock producers, consumers, workers, and businesses in the agricultural and general economy. To the extent that export subsidies are used to maintain agricultural exports, government costs are increased above current levels. Import barriers also may become necessary to protect the U.S. food and fiber industry, further undermining efforts to liberalize world trade.

These impacts result from any large supply control programs, although the degree of harm is greater for mandatory controls than it is for voluntary programs due to their restrictive nature. If mandatory programs are used, they inhibit adjustment to changing economic circumstances and increase the difficulty of young and low-income people entering farming. Voluntary controls allow more flexibility but generally are less effective and more costly to the government than mandatory controls since prices do not rise as far above equilibrium levels. And in some cases voluntary supply control options, such as expanding acreage reduction requirements, reduce the income of program crop producers."

The Competitiveness of U.S. Agriculture

The third study focused on how competitive is U.S. agriculture. The APWG viewed this as a question that had to be answered before looking at other policy options. This study concluded that the U.S. can compete, revealing that the bulk of U.S. wheat, corn and soybeans is produced at variable costs below those of other nations including Argentina, often cited as the world's lowest cost producer. Moreover, the quantity of commodities produced at competitive costs gives the U.S. an overwhelming edge. The U.S. produces over 13 times as much corn at or below Argentina's cost, as well as six times the quantity of wheat. The U.S. produces two and one-half times Brazil's annual soybean output at competitive costs.

The study estimated that the cost of moving a bushel of grain from the farm into export position is significantly lower than in other nations, and the U.S. export system could handle 50% more volume within existing capacity. Competitors would have to make substantial capital investments to significantly increase their export capacity.

The study showed the strength of American farmers and agribusiness on economic grounds alone, but much of that competitive edge has been blunted by counterproductive

government policies. The poor trade performance of the early 1980's can be traced to a variety of government policies, both in the U.S. and abroad, and not to the competitiveness of U.S. agriculture.

Detracting from the U.S.'s basic advantages are macroeconomic, farm and trade policies that have combined to erode U.S. competitiveness and limit export potential. The study suggested that past macroeconomic policies contributed to the worldwide economic recession, large Third World debts, high real interest rates, and a high-valued dollar, all of which operated to agriculture's disadvantage in the first half of the 1980's.

Focusing on farm policy, the study showed that the 1985 Farm Bill corrected some of the negative aspects of past U.S. farm policy, which have had the effect of propping up world prices and encouraging others to expand output in a relatively risk-free environment. The result of these past policies has been the stockpiling of vast quantities of surplus grains and other commodities at enormous cost to taxpayers and farmers. The study noted that U.S. commodity policy has been particularly damaging, providing price protection for foreign producers and unilaterally reducing our production and exports as foreign production expanded.

The study maintained that other exporting countries administer policies that distort prices and inhibit trade, including the European Economic Community (EEC), Argentina, Australia, Brazil and Canada. For example, the EEC pursues highly protective policies. Its Common Agricultural Policy (CAP) protects internal markets that provide grain producers' prices that are more than double those in the world market. The result has been rapidly increasing grain output, even as internal consumption was slowing because of the high consumer prices.

In addition, restricted access to domestic markets by many countries has been a major factor behind the stagnant growth of world markets, the study noted Japan, the most protective nation, holds its rice and wheat prices as much as six times higher than world prices. Many other major markets were found to have substantial import barriers too. The study concluded that the United States, with its comparative advantage in production and ability to expand exports rapidly and at low cost, clearly would be in an advantageous position to participate in the market growth if: (1) U.S. macroeconomic policy is stable; (2) U.S. domestic farm policy is modified; and (3) world trade rules are liberalized.

Decoupling: A New Direction in Global Farm

The fourth APWG study entitled, "Decoupling: A New Direction in Global Farm Policy", analyzed another major policy option that severs price and income supports, as well as

supply controls from government payments -- a concept that had been introduced in the farm policy debate in 1985. This study found that current farm policy causes serious economic distortions. The study concluded that:

> "Commodity programs distort the signals that are provided by the market to guide production, consumption, and investment decision. Perhaps the clearest example is encouraging even greater production of commodities that are already in surplus and wasting agricultural resources. The incentives in the programs generally encourage farmers to use chemicals, fertilizers, and other inputs more intensely even when their costs exceed the additional returns from the market, and also to plow up fragile lands that are not suited to sustained cultivation. Supply control and other program provisions act to constrain farmers' production decisions, and thus reduce their ability to produce most efficiently. By reducing output, production controls also add to farmers' fixed unit costs of production, since these costs must be spread over a smaller volume of output. A higher price then is required to cover all costs. (With a 20 percent acreage reduction requirement, the study suggests that a typical Iowa corn farmers' cost could be up to 33% per bushel higher than without any acreage idled.) And, since the benefits of such programs become bid into the price of farmland and other fixed assets, they increase the costs of entry into farming, forcing beginning or expanding farmers to pay higher rents or to incur more debt than if land prices were not so inflated. These distortions in turn actually offset much of the benefits that the program provide to farmers and at the same time make them vulnerable to risks from unpredictable changes in policy."

The study goes on to suggest that these distortions also effect non-program crops:

> "Program incentives also affect non-program crops. They encourage farmers to expand acreage of program crops at the expense of other crops. A primary example of this is the impact of the grain program on soybeans which are produced by many grain farmers. The returns from soybeans relative to grains are an important determinant of the acreage planted. While market prices for both have fallen substantially in recent years, target prices for grains have changed little, altering the traditional relationship between soybean and corn returns. The soybean price averaged more than twice the corn target price for most of the 1970's, but by 1986/87 the soybean price had declined to only 1.6 times the target price. Even though market net returns are greater for soybeans than for corn -- in the Corn Belt averaging more than $130 per acre above variable costs compared to $70 per acre for corn -- the added returns from the corn program encourage producers to shift from soybeans to corn and other

grains. This has contributed to the major decline in soybean acreage (13 million acres -- 18 percent) since 1979. Once soybean acreage has shifted into the corn or other programs, it is difficult to return it to soybean production because farmers then lose acreage base by doing so."

Agricultural Policy for the 1990's

The fifth and final study entitled "Agricultural Policy for the 1990's", compared the estimated economic performance over the next 5 years of the agricultural economy under three different options.

The study assumed the same program costs and compares projections of three Farm Bill scenarios: an extension of current farm policy; a similar policy, but one which would provide farmers greater flexibility in crop decisions; and a still more flexible program -- or limited "decoupling" -- in which farmers' production decisions would be unaffected by farm programs. In essence, the study looked at how different farm programs would likely affect the farm sector and the general economy over a five-year period of time, assuming farm program expenditures are constant for each option.

If the current Food Security Act of 1985 (FSA) was simply extended for another five years, the study projected declining shares of world markets and slowly declining farm incomes because of constraints on farmer decision-making.

Stocks would build slowly and place increasing pressure on market prices. Total idled acreage would continue to be substantial, and farm income likely would decline slowly during much of the period.

The planting flexibility option retained the basic structure of the current Farm Bill but replaces crop-specific bases with a single farm base, giving farmers the option of planting various program or oilseed crops on their farm acreage base. The study projected expanded production and use, and somewhat greater market growth.

With this plan in place for five years, the study concluded that the sector would be allocating resources somewhat more efficiently than under current policy -- concentrating production more on the fastest growing commodity markets. The result would be smaller carryover stocks, faster market growth and somewhat higher incomes.

Under the "decoupled" policy option, income support would be continued at about the same historical level. Price-support loans are made on a recourse basis, annual land idling programs are eliminated, and the current EEP and grain reserve policies are continued. Farmers may plant any program or oilseed crop on their farm acreage base.

The study projected that under this option, the farm sector would experience an initial decline of prices and sales receipts which would require larger government payments in the early years.

The study concluded that following about two years of adjustment, increased market growth would bring price recovery and higher incomes as well.

With this plan in place for five years, the study suggested that the sector would be much more competitive both in domestic and export markets. It would mean faster growth, lower stocks, much less land idled, greater production and, by the end of the period, stronger prices and higher incomes.

Mr. Chairman, this concludes our testimony. Again, we appreciate the opportunity to appear before this Committee and your interest in prudent public policy. We would be glad to answer any questions you or other Members may have.

Senator CONRAD. Mr. McClung.

STATEMENT OF JOHN McCLUNG, VICE PRESIDENT, GOVERNMENT RELATIONS, UNITED FRESH FRUIT AND VEGETABLE ASSOCIATION, ALEXANDRIA, VA

Mr. MCCLUNG. Thank you, Mr. Chairman.

INTRODUCTION

I would like to start this morning by extending our appreciation for this opportunity to testify. The organization that I represent has some 2,100 members all the way from grower/shippers to supermarket operators. Our members handle over 80 percent of the fresh produce commercially marketed in the United States in a given year. Yet we have never, nor has any other significant part of the industry, been very much involved in the farm bill process. It is largely because fresh fruits and vegetables are not part of any Federal support programs. However, as environmental, food safety, research and international trade matters loom ever-larger in our business, in the business of agriculture generally, we are compelled to assume a more active involvement in the development of general policies for food and agriculture, and particularly in those areas in which the produce industry has a particular interest.

NECESSARY TO CONTINUE THE AVAILABILITY OF THE NECESSARY CHEMICAL TOOLS

I would begin by telling you that the most important single circumstance which is uniquely confronting the fruit and vegetable industry at this time is the continued availability of the necessary chemical tools to produce an abundant supply of safe, nutritious fruits and vegetables. We are considered technically minor crops by the regulatory machinery, and our problem is that we will continue to lose the availability of these chemical compounds over time because the manufacturers find the market simply too economically thin to justify the registration and reregistration process. And that will be the case unless prompt action is taken to maintain their availability for producers.

The minor crop description, by the way, refers not just to specialty crops but virtually to all fruits and vegetables. And I want to emphasize that we are speaking here in the context of pesticides that are fully approved for use in a way that assure a safe and healthful food supply.

The problem has worsened in recent years as increased regulatory and testing requirements and fees have discouraged chemical manufacturers from seeking new registrations and from maintaining those already in existence. We urge and solicit this committee's help in earnest consideration of resolving this problem. We also in this regard respectfully request that USDA be authorized to require and be required to set up a minor use registration support program.

This program should be authorized to seek registrations for minor uses and to gather the data to support existing registrations for minor uses.

Now, lest I be perceived to sound here like I am delivering an unrestrained testimony in favor of the use of chemicals, let me stipulate that we believe very firmly that the farm bill should focus and help in encouraging farmers to use the best possible production practices to protect ground water and soil quality while maintaining productivity. We find ourselves pleasantly in agreement with testimony that was given earlier today that calls for special projects to explore the possibilities with reduced use of chemicals.

RESEARCH

We also believe that USDA should focus more of its program activities on research into alternative practices for fruit and vegetable producers, not just alternatives to the traditional use of chemicals, but alternatives in other areas including enhancement of the research in biotechnology and genetic improvement in crops with emphasis on fruits and vegetables on such things as new food preservation and processing technologies, such matters as irradiation and packaging innovations which are all important to us.

There has been, as you are well aware, a tendency to put the Department's research money into principally traditional pursuits, and we would ask that given the public's interest in and the industry's interest in the development of new safer technologies that there be some redirection of that emphasis.

We also are urging a provision for specific research for an Agricultural Marketing Service study on the feasibility of a generic research and promotion order for fresh fruits and vegetables. In our industry we see the very real benefits accrued to others in the agricultural community who have gone down this self-help path, and we would like to see if that is a possibility for us. However, our industry is unique—in fact, it is not so much one industry as it is 100 or more little industries cobbled together. For this reason, we are asking help in determining the merits of such a program, and circumstances under which it might operate. We will ask for inclusion of that language as the farm bill evolves.

Senator CONRAD. If we could ask you to summarize at this point, that would be helpful.

Mr. MCCLUNG. I will indeed.

CONCLUSION

I will simply conclude by saying that we would appreciate it, to the extent possible, if the pending food safety legislation and the farm bill legislation could be kept separate. We see real dangers to the development of both if they are commingled, which has been suggested as a very real possibility as these things develop. I will conclude. Thank you very much.

Senator CONRAD. Thank you, Mr. McClung.

[The prepared statement of Mr. McClung follows:]

United Fresh Fruit and Vegetable Association

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TESTIMONY
of the
UNITED FRESH FRUIT AND VEGETABLE ASSOCIATION
before the
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE
on
1990 FARM BILL
21 March 1990

Good morning Mr. Chairman and members of the Committee. I am John McClung, Vice President of Government Relations for United Fresh Fruit and Vegetable Association. United is the national trade association for the fresh produce industry. Our 2,100 member companies include grower/shippers, brokers, wholesalers, foodservice operators, retailers and affiliated industries. Our members handle over 80 percent of the fresh produce commercially marketed in the United States and have a great interest in the 1990 Farm Bill.

The produce industry has not, in years past, been greatly involved in the farm bill process, largely because fresh fruits and vegetables are not part of the direct federal support programs. However, as environmental, research, and international trade matters loom ever-larger in the business of agriculture and especially in the fresh fruit and vegetable business, we are compelled to assume more active involvement in the development of general policies for food and agriculture.

We support the fundamental thrust of the Administration's farm bill proposals, because we believe market oriented policies will improve environmental quality, expand markets internationally, and provide much needed flexibility to program crop subsidy programs while balancing economic concerns thereby encouraging a more progressive farm and rural economy. The most important single circumstance confronting the fruit and vegetable industry at this time is the continued availability of the necessary chemical tools to produce an abundant supply of safe, nutritious fruits and vegetables. The growers of what is technically characterized as "minor crops" will continue to lose these compounds because the manufacturers find the market for them thin, unless prompt action is taken to maintain their availability for producers. "Minor crop" description refers not just to specialty crops, but includes all fruits and vegetables. Of course, we are speaking in the context of pesticides that are fully approved for use in a way that assures a safe and healthful food supply.
The problem has worsened in recent years as increased regulatory and testing requirements and fees discouraged chemical manufacturers from seeking new registrations and maintaining existing registrations. We urge this Committee's most earnest consideration in resolving this problem.

United has urged the continued funding of the Interregional Research Project No. 4 (IR-4). We believe that now is the time not only to

continue the funding, but to dramatically increase it. At a minimum, the IR-4 budget should be increased to the $12 million that the IR-4 organization has estimated is needed to handle the present backlog and the additional work resulting from the 1988 amendments to the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). The IR-4 has identified some 1000 pesticides that chemical manufacturers will not fund during the reregistration process. The IR-4 involves EPA, USDA's Agricultural Research Service, State Research Services and State Experiment Stations. It assists in the development of reliable data in support of tolerances and the registration of pesticides for uses that are not economically feasible for the chemical industry.

We also respectively request that the U.S. Department of Agriculture be authorized and required to set up a minor use registration support program within the Office of the Assistant Secretary for Science and Education. This program should be authorized to seek registrations for minor uses and to gather the data to support existing registrations for minor uses. The funding for this program should be at least $3 million for each of the four years following enactment.

At the same time, United believes that USDA Science and Education should focus more of its program activities on research into alternative practices for fruit and vegetable producers, including demonstration projects. There should be an enhancement of USDA research in biotechnology and genetic improvement in crops with emphasis on fruits and vegetables. New food preservation and processing technologies should be investigated, including irradiation and packaging innovations.

United urges provision for specific research for an Agricultural Marketing Service Study on the feasibility of a generic research and promotion order for fresh fruits and vegetables. In our industry we see the very real benefits accrued to others in the agricultural community--beef, dairy, pork--that have gone down this self-help path. However, our industry is unique--in fact, it is not so much one industry as it is 100 or more little industries cobbled together. For this reason, we are asking help in determining the merits of such a program, and circumstances under which it might operate.

ADMINISTRATION PROPOSALS

o Price and Income Supports--The Administration's 1990 Farm Bill proposal recommends planting flexibility. United supports the Administration view that market orientation in farm programs best serves the U.S. agricultural production system. However, as separation of farm subsidies from the units of production proceeds, United encourages careful consideration of the impact on non-program crops, and the production of fruits and vegetables in particular. We urge discouragement of any efforts that might develop to induce growers of program crops to produce fruits and vegetables on idled acres while continuing to receive federal subsidies.

o Conservation and the Environment--The Farm Bill should, we believe focus on helping and encouraging farmers to use the best production practices possible to protect groundwater and soil quality, while maintaining productivity. We agree with the Administration that "Generally, most water quality problems may be addressed through voluntary adoption of best management practices, encouraged by education and technical assistance from USDA and state agencies." We endorse the incorporation of low-input innovation and technologies into conventional agriculture, and believe that movement toward separating farm income support mechanisms from units of production will do more than any other combination of reforms or programs to achieve the highest possible degree of environmental quality and food safety in agriculture.

The Administration would authorize the Secretary of Agriculture to place more than 25 percent of cropland in a county into the program to reduce cropping if he determined that the potential risk to water quality outweighed the adverse impact retiring cropland would have on the local economy. Producers could be offered the option of signing a 10-year contract or giving permanent easements on the land. United has potential reservations about the impact such a program could have on rural communities and international trade and wants to discuss this further with the Administration and members of Congress.

- International Programs--The Administration and the Congress should continue its efforts to assure international market access for U.S. agricultural products, and particularly any non-tariff trade barriers masquerading as public health concerns. United urges that USDA export programs treat our fresh fruit and vegetable products as value added, with such products receiving higher priority in the total export picture than they now do. We encourage inclusion of fresh fruit and vegetables in all food assistance programs to other nations.

In conclusion, I would like to add that United's members strongly believe that the FIFRA and the Federal Food, Drug and Cosmetic Act amendments should be kept separate from the 1990 Farm Bill, and want the opportunity to be involved in deliberations on all issues relative to those Acts.

I would be pleased to respond to any questions you may have.

Senator CONRAD. Next Elmer Hillesland, executive director of the Grand Forks Chamber of Commerce, Grand Forks, North Dakota. That is a State that is first among equals.

Mr. HILLESLAND. Dear to our hearts; right, Senator?

Senator CONRAD. Absolutely. Good to have you here.

STATEMENT OF ELMER HILLESLAND, MEMBER, AGRICULTURE COMMITTEE, GRAND FORKS CHAMBER OF COMMERCE, GRAND FORKS, ND

Mr. HILLESLAND. I appreciate the opportunity of being here, but I want to call your attention to the fact that I am not the executive director of the Grand Forks Chamber. I am a member of the ag committee of the Grand Forks Chamber of Commerce. I represent—and I should add I have two sons who operate a fourth generation farm in North Dakota—I represent 9 commodity groups and 11 chambers of commerce. Can I have a little extra time to rebut what he (Stuart B. Hardy, U.S. Chamber of Commerce) has been talking about?

Senator CONRAD. You can have a lot of extra time.

Mr. HILLESLAND. Thank you.

Senator CONRAD. We are taking him (Mr. Hardy) with us. I have a little farm meeting I am going to be having out of the States soon. And we are going to take him with us, and we will move him in incognito and then we will probably have to take him out in a box.

Mr. HILLESLAND. OK. Once again, I represent nine commodity groups, representatives of nine commodity groups.

Senator CONRAD. How many chambers?

Mr. HILLESLAND. And 11 chambers of commerce in eastern North Dakota and northwestern Minnesota. In five of the——

Senator CONRAD. So it is 11 to 1. You represent 11.

Mr. HILLESLAND. Well, he was trying to speak for the country, I believe, and I am trying to represent eastern North Dakota and northwestern Minnesota. But in addition to that, of the nine commodity groups represented at the farm forum meeting that we held in Grand Forks, five of them represented national commodity groups, who were not only speaking for eastern North Dakota and northwestern Minnesota.

We recognize that the economic problems which are faced by farmers are not just farm problems. They are local business problems, national manufacturing problems, financial institution problems, and an international trade problem for America. Congress and the administration must understand that without a strong agriculture, we cannot have a strong national economy. History has proven that civilizations rise and fall on the strength of their agriculture.

The chambers of commerce and the agriculture commodity representative have agreed in principle on the following problems and recommendations for their solutions.

Farm Income

PROGRAM CROPS

Flexibility should be the theme of the 1990 farm bill. Recent introduction of the Lugar-Leahy bill appears to embody the NCA approach and indicates bipartisan support for flexibility on Capitol Hill.

Barley producers want barley to be specifically considered in the 1990 farm bill. We suggest development of a separate section within the feed grains title to allow for the establishment of more equitable loan and target price levels.

We recommend sunflowers to be included as a program crop.

Target prices based on the cost of production plus 10 percent for labor and management is fair and reasonable, with deficiency payments based on the acreage of each program crop planted.

Commodity loans at 75 percent of their average rolling market prices for the last 5 years, should all be redeemable as equity (marketing) loans.

Payment limitations of $50,000 should not be reduced.

NONPROGRAM CROPS

We support planting flexibility allowing soybean growers to respond to market signals, but our farm programs should not support the price of soybeans received by foreign producers.

Equity (marketing) loans, without recourse, at 2.5 times the target price of corn provides income support for U.S. soybeans without encouraging increased production in other countries. Soybean growers do not want a target price or deficiency payments.

The sugar section of the existing farm bill has worked well, and should not be changed. The loan rate for sugar must reflect the cost of production.

Potato and dry edible bean growers do not want to be included in the 1990 farm bill, and are opposed to the flexibility of allowing potatoes or edible beans to be planted on program crop acres.

Marketing and Trade

Embargoes of American agricultural products must never again be allowed.

The use of export enhancement has worked well, and should be expanded.

The Jackson-Vanick amendment should be repealed giving the U.S.S.R. most-favored trading status and credit should be extended to them.

We are for free trade if it is fair trade and support decoupling, if necessary, to comply with GATT. Congress must, however, be willing to protect our interests at Geneva.

Conservation and the Environment

We recognize the importance of environmental concerns and will cooperate with environmentalists, agribusiness, and consumers in writing the 1990 farm bill.

Senator Conrad. Elmer, this does not apply.

Mr. HILLESLAND. Thank you. And I am almost finished. But you know, there is so much good stuff in this I hate to leave any out.

Senator CONRAD. Do not.

Mr. HILLESLAND. Rules and regulations concerning the use of commercial fertilizer, pesticides, and other chemicals must be realistic and supported by scientific evidence. I have to repeat that. They must be supported by scientific evidence. The alar scare in apples is an example of overreaction.

The quality of our water, especially the contamination of ground water by irresponsible accumulations of nitrates and pesticides, is a concern of all farmers. Monitoring of ground water should be the responsibility of each State.

Chemicals banned for use in the United States must not be allowed to be used in any agricultural product produced in a foreign country for export into the United States.

The Conservation Reserve Program should be continued with compatible rents and appropriate weed and pest control to reach its original goal of 40 to 45 million acres. We recognize the positive impact this program has on the environment and the preservation of wildlife habitat. The remaining acres should include wetlands to provide an economic incentive for farmers to participate. Farmers must be compensated for restrictions imposed on the management and operation of their farms for wildlife habitat.

FEDERAL CROP INSURANCE

The Federal Crop Insurance Corporation should be improved to cover the cost of production of all crops. Disaster payments could be eliminated if the savings are used to set Federal crop insurance premiums at a level which would encourage participation. Benefits to the farmers should take preference over concerns for insurance agencies.

Sugar coverage should reflect the amount of sugar produced per acre. Price elections for all edible beans should be set at 16, 18, and 20 cents per pound with consideration given to increasing costs of production.

FARM CREDIT

Low rate FmHA loans should be available for beginning farmers who demonstrate the managerial ability to succeed. FmHA credit should not be abused to perpetuate inefficient operators who use subsidized credit to compete with other farmers. The current FmHA policy of emphasizing guaranteed loans rather than direct loans is a step in the right direction.

SWAMPBUSTER

Now this is one that you and I understand, Senator. This one has to do with swampbuster. The nine commodity groups agree that swampbuster regulations must be revised so that farmers can live with them. Type I, nuisance wetlands, certified to have been planted or considered planted 3 years out of 5, before or after December 23, 1985, should be exempt.

Penalties must be reviewed and allowances made so that farmers who are out of compliance can rectify their errors.

Penalties should be commensurate with the violation. The death penalty, as you refer to, must be abolished.

GENERAL

Finally, anticipated savings in defense spending, because of developments in Eastern Europe, should allow for a reasonable return to the American farmer.

I agree with you again. If farmers are expected to cooperate with the increasing demands of environmentalists, ecologists, and wildlife interests, their cooperation will also be necessary. American farmers have been good stewards of the land and will continue to meet their increasing responsibilities to society. Thank you very much.

[The prepared statement of Mr. Hillesland follows:]

TESTIMONY OF

ELMER HILLESLAND

GRAND FORKS, NORTH DAKOTA CHAMBER OF COMMERCE

BEFORE THE

SENATE COMMITTEE ON AGRICULTURE,

NUTRITION, AND FORESTRY

MARCH 21, 1990

EIPLANATION

The Grand Forks Chamber of Commerce is an organization consisting of over 700 member businesses which serve the Central Red River Valley of the North.

The Agri-Business Committee of the Grand Forks Chamber of Commerce sponsored a "1990 Farm Bill Forum" on November 27, 1989. Nine commodity representatives met with area Chambers of Commerce to develop a common policy position concerning farm and international trade policies of the United States Government.

Organizations supporting this policy position include:

Grand Forks, ND, Chamber of Commerce
East Grand Forks, MN, Chamber of Commerce
Fargo, ND, Chamber of Commerce
Moorhead, MN, Chamber of Commerce
Wahpeton, ND, Chamber of Commerce
Breckenridge, MN, Chamber of Commerce
Grafton, ND, Area Chamber of Commerce
Crookston, MN, Area Chamber of Commerce
Thief River Falls, MN, Chamber of Commerce
Devils Lake, ND, Chamber of Commerce
Langdon, ND, Chamber of Commerce
and
United States Wheat Growers
United States Durum Growers Association
United States Corn Growers Association
National Barley Growers Association
North Dakota Soy Bean Growers Association
National Sunflower Association
North Dakota Edible Bean Growers Association
Red River Valley Potato Growers Association
Red River Valley Sugar Beet Growers Association

INTRODUCTION

Few industries touch as many American citizens as agriculture. American agriculture provides more abundant and quality food than any country in the world at the lowest possible cost.

Many individuals and organizations have pointed out to Congress and the Administration that economic problems exist in agriculture, but not all agree on their solution.

It is not the purpose of these organizations to provide a solution to all problems, but instead to provide some suggestions as to how economic health might be restored to this segment of our nation's economy.

We recognize that the economic problems which are faced by farmers are not just farm problems. They are local business problems, national manufacturing problems, financial institution problems and an international trade problem for America.

We have taken a positive position when considering the problems and their possible solutions. It is the intention to make recommendations which will strengthen not only the agricultural economy but the overall economy of the United States.

Congress and the Administration must understand that without a strong agriculture we cannot have a strong national economy. History has proven that civilizations rise and fall on the strength of their agriculture.

The Chambers of Commerce and the agriculture commodity representatives agreed in principal on the following problems and recommendations for their solutions.

FARM INCOME

Program Crops

Flexibility should be the theme of the 1990 Farm Bill. Farmers want greater freedom to make production decisions on their farms. The Normal Crop Acreage (NCA) concept is one which would provide greater flexibility. Recent introduction of the Lugar Leahy bill appears to embody the NCA approach and indicates bipartisan support for flexibility on Capitol Hill.

Barley producers want barley to be specifically considered in the 1990 Farm Bill. We therefore request removal of the discretionary power of the Secretary to include or exclude barley from the program. We suggest development of a separate section within the Feed Grains Title to allow for the establishment of more equitable loan and target price levels.

We recommend sunflowers to be included as a program crop fully competitive with other crops on the basis of production and accessibility to export programs. The flexibility of planting other base crops must then be extended to include sunflowers.

Target prices based on the cost of production plus 10% for labor and management is fair and reasonable, with deficiency payments based on the acreage of each program crop planted.

Commodity loans at 75% of their average rolling market prices, for the last five years, should all be redeemable as equity (marketing) loans. The equity loan discourages increased production in countries who compete with us.

Payment limitations of $50,000 should not be reduced and the definition of a farmer must be clearly and equitably defined. We also urge the concept of a family farm to be increased in line with what is efficient and economical.

Non-Program Crops

We support planting flexibility allowing soybean growers to respond to market signals but our farm program should not support the price of soybeans received by foreign producers. Income support should be in balance with the support levels of program commodities. We do not, however, want government stock-building by the current non-recourse loan program or a government-financed reserve.

Equity (marketing) loans, without recourse, at 2.5 times the target price of corn provides income support for U.S. soybeans

without encouraging increased production in other countries. Soybean growers do not want a target price or deficiency payments.

The sugar section of the existing farm bill has worked well and should not be changed. The loan rate for sugar must reflect the cost of production. It has been $.18 per pound for the last five years. The sugar program has been operating at no cost to the American tax payer and should continue to be handled in the same manner.

Potato and dry edible bean growers do not want to be included in the 1990 Farm Bill and are opposed to the flexibility of allowing potatoes or edible beans to be planted on program crop acres.

MARKETING AND TRADE

Embargoes of American agricultural products must never again be allowed except in the case of a national emergency. The expansion of soybean production in Brazil, financed by the Japanese, is an example of the permanent damage done to our export markets.

The use of Export Enhancement has worked well as a means of competing with other countries who subsidize the export of their agricultural products and should be expanded. Public Law 480 and Targeted Export Assistance (TEA) have also served its purpose and should be continued.

Additional costs created by requiring part of our grain, involved in certain export programs, to be shipped in more expensive U.S. ships is an unreasonable demand to be placed on agriculture. If it is in the national interest to subsidize the U.S. Merchant Marine, we should not yield to the demands of the maritime union and charge this subsidy to agriculture.

The Jackson Vanik Amendment should be repealed giving the U.S.S.R. Most Favored Trading Status and credit should be extended to them. The Canadian countervailing duty on corn should also be eliminated.

We are for free trade if it is fair trade and support decoupling, if necessary, to comply with GATT. Congress must, however, be willing to protect our interests at Geneva.

CONSERVATION AND THE ENVIRONMENT

We recognize the importance of environmental concerns and will cooperate with environmentalists, agribusiness, and consumers, in writing the 1990 Farm Bill. The mission of agriculture should be to provide an adequate and safe supply of food and fiber at fair and reasonable prices. Our cooperation would provide safe food and water, control soil erosion, and

provide appropriate habitat for wildlife. Rules and regulations concerning the use of commercial fertilizer, pesticides, and other chemicals must be realistic and supported by scientific evidence. The alar scare in apples is an example of over-reaction.

The quality of our water, especially the contamination of ground water by irresponsible accumulations of nitrates and pesticides, is a concern of all farmers. Monitoring of ground water should be the responsibility of each state.

Chemicals banned for use in the United States must not be allowed to be used on any agricultural product produced in a foreign country for export into the United States.

The Conservation Reserve Program (CRP) should be continued with compatible rents and appropriate weed and pest control to reach its original goal of 40,000,000 to 45,000,000 acres. We recognize the positive impact this program has on the environment and the preservation of wildlife habitat. The remaining acres should include wetlands to provide an economic incentive for farmers to participate. Farmers must be compensated for restrictions imposed on the management and operation of their farms for wildlife habitat.

FEDERAL CROP INSURANCE

The Federal Crop Insurance Corporation should be improved to cover the cost of production for all crops. Disaster payments could be eliminated if the savings are used to set Federal Crop Insurance premiums at a level which would encourage participation. Benefits to the farmer should take preference over concerns of insurance agencies. The program must be simplified and ASCS yields should be used wherever possible. The program has been too complicated.

Sugar coverage should reflect the amount of sugar produced per acre. Price elections for all edible beans should be set at $.16, $.18, and $.20 per pound, with consideration given to the increasing cost of production.

FARM CREDIT

Low rate FmHA loans should be available for beginning farmers who demonstrate the managerial ability to succeed. FmHA credit should not be abused to perpetuate inefficient operators who use subsidized credit to compete with other farmers. The current FmHA policy of emphasizing guaranteed loans rather than direct loans is a step in the right direction.

SWAMPBUSTER

The nine commodity groups agree that "Swampbuster" regulations must be revised so that farmers can live with them. Type I (nuisance wetlands) certified to have been planted or considered planted three years out of five before or after December 23, 1985, should be exempt.

Penalties must be reviewed and allowances made so that farmers who are out of compliance can rectify their errors. Penalties should be commensurate with the violation. The "death penalty" must be abolished.

GENERAL

Congress should not write the 1990 Farm Bill based on a snapshot of today's conditions but should consider the possibility of increasing supplies and burdensome surpluses.

Anticipated savings in defense spending, because of developments in eastern Europe, should allow for a reasonable return to the American farmer.

If farmers are expected to cooperate with the increasing demands of environmentalists, ecologists, and wildlife interests, their cooperation will also be necessary. American farmers have been good stewards of the land and will continue to meet their increasing responsibilities to society.

Senator CONRAD. Thank you. Excellent testimony, I might add. I agree with virtually everything that you have brought to the committee's attention. The one place where I would be concerned is the direct loans guarantees. We have moved toward guarantees, and I think that is healthy to an extent, but we have now gone from $4 billion direct loan program in 1980 to $1 billion last year, and now they want to go to $500 million. And all of the testimony we received in North Dakota was that we need to slow down that train now. Again, that was excellent testimony. It is useful to the committee, and what we need now is to have the national chamber adopt that position.

Mr. HILLESLAND. Well, we would be happy if you just adopted my entire testimony. That would be just fine.

Senator CONRAD. Yes, I think that would be very useful, and maybe we can get that done by maybe 2 o'clock, 2:30.

I want to thank this entire panel. I think this has been really excellent testimony and useful to the committee. And we have had a chance to ask some questions as we went along. Given the fact that we are after 1 o'clock, I am going to have to close down this hearing, but, again, I appreciate very much the really excellent contributions that you have made here today. Thank you.

[Whereupon, at 1:05 p.m., the committee adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

APPENDIX

UNIVERSITY OF ILLINOIS AT URBANA-CHAMPAIGN,
DEPARTMENT OF AGRICULTURAL ECONOMICS,
Urbana, IL, March 16, 1990.

The Honorable PATRICK J. LEAHY,
Chairman, Senate Committee on Agriculture, Nutrition, and Forestry, 328A Russell Senate Office Building, Washington, DC 20510

DEAR SENATOR LEAHY: As you receive testimony on 1990 farm legislation, could I request that the enclosed summary of our 21 State farmer-preference survey on major farm and food issues be placed in the hearing record?

The responses from 12,717 farmers summarized in this report provide an objective nationwide picture of farmers preferences for continuing and modifying the 1985 Food Security Act.

Copies of the complete report are being sent for each member of the committee.[14] If you have further questions about this research effort, we would be happy to respond.

Sincerely,

HAROLD D. GUITHER,
Professor.

[The summary of 21 State farmer-preference survey on major farm and food issues follows:]

U.S. FARMERS' PREFERENCES FOR AGRICULTURAL AND FOOD POLICY IN THE 1990s

(Marshall A. Martin, Bob F. Jones, Purdue University; Harold D. Guither, Robert G.F. Spitze, University of Illinois)

During 1989, agricultural economists in 21 States joined together in a cooperative effort to determine farmers preferences on some of the key issues that Congress would consider as it writes the 1990 agricultural and food legislation. With the assistance of the State agricultural statisticians, representative samples of farmers in the 21 participating States were selected.

Policy research workers in the participating States cooperated in developing a uniform questionnaire so that they could accurately identify similarities and differences of opinion across State lines. Questions selected for the survey centered on the major agricultural and food issues in 1990: price and income support policies, conservation and the environment, credit, trade, food assistance, and fiscal matters. The 12,717 who responded expressed a wide range of preferences that are important to 1990 legislation.

Special measures were taken to protect the privacy of all respondents to keep their individual responses confidential in compliance with Federal law. Responses from each State were combined and weighted, according to the number of farms reported in the 1987 Census of Agriculture, to obtain regional and total composite responses.

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[14] The report, "U.S. Farmers' Preferences for Agricultural and Food Policy in the 1990s," November 1989, North Central Regional Extension Publication 361, North Central Research Publication 321, Illinois Agricultural Experiment Station Bulletin 787, is retained in the committee file.

Policy direction. Farmers preferences were divided on the future direction that commodity programs should take, but they generally agreed on the instruments to carry them out. A majority favored some form of continuation of farm programs while one-third favored gradual elimination. Only a few preferred mandatory supply control or decoupling.

Target prices and loan rates. A majority of farmers would like to keep target prices. More favor gradual increases in rather than current or reduced target prices. To set loan rates, farmers would prefer to use average market prices or elimination of commodity loan programs completely.

Paid land diversion. Although farmers were divided on continuing paid land diversion, about two-fifths would prefer to continue to give the Secretary of Agriculture an option to use it.

Marketing loans. More farmers favor than oppose a marketing loan for wheat, feed grains and soybeans. However, farmers in the North Central and Southern States support the marketing loan while farmers in the West and Northeast disapprove.

Acreage bases. Nearly a majority favor a total crop acreage base with flexibility to plant different crops than crop specific acreage bases.

PIK certificates. Farmers are split three ways on continuing use of PIK certificates: yes, no and not sure.

Farmer-owned reserve. About twice as many favor continuing the farmer-owned reserve as oppose its continuation.

Future dairy support. Preferences on future milk price policy are divided but the most frequent choice among all respondents was to phase out the dairy support program. Milk producers also are divided but their most frequent preference was to base support prices on cost of production and establish a quota for each producer.

Administrative discretion. Although the Secretary of Agriculture has considerable discretion in implementing farm programs, more respondents would prefer to make no change than to give him more or less discretion.

Distribution of benefits. A majority favor giving more benefits to farmers with gross sales under $250,000. However, respondents did not support using government programs to influence the number and size of farms.

Reducing farm program costs. If budget pressures require reducing farm program expenditures, respondents prefer to continue payments to farmers under $250,000 sales and reduce payments to larger farm operators, or make across-the-board percentage cuts. Cutting some programs more than others or making payments only to those farmers with severe financial need are not popular choices.

Conservation programs. Farmers strongly support the conservation compliance features of the 1985 Food Security Act. They also strongly support the 10-year Conservation Reserve Program but are divided on how much acreage should be included. To improve soil conservation and water quality, they prefer cost sharing for conservation and water structures and government payments to modify cultural practices or remove land from commercial production. Respondents are concerned with water pollution and agree that government should regulate land uses to reduce it.

Crop insurance and disasters. On other production issues farmers are divided on a policy to deal with farm production risks from natural disasters. Their most frequent preferences were to keep the present crop insurance program and to have limited disaster assistance in years of severe natural disturbances.

Payment limitation. Farmers are divided on the question of payment limitation but the most frequent preference is to make no change in the present $50,000 limit.

Credit for high risk farmers. Farmers are about evenly divided in favor and opposed to the government lending money to farmers who cannot get credit from any other source.

Domestic food assistance. Food assistance programs are more popular in the North Central States and Northeast than in the West and South.

Rural Development. Rural Development to expand employment and economic activity in low income rural areas received strong support from all farmers.

Trade. Farmers support: negotiations to reduce world-wide trade barriers, bilateral agreements, reducing domestic farm subsidies in major importing and exporting countries, international agreements to control production and marketing, additional farmer-financed market development programs, export enhancement and other export subsidies, and efforts to reduce our agricultural import barriers to encourage more trade.

Foreign Food Assistance. Respondents had no clear preference on proposals to provide more funds for food aid to hungry nations, for the United States to assist developing countries to increase their agricultural productivity and trade potential, or to give selected low income countries preferred entry to our U.S. agricultural market.

Federal spending. Farmers support reducing the Federal deficit by cutting every budget item by a set percentage, by reducing the defense budget, by reducing social programs, by reducing farm program expenditures, by collecting taxes due the Federal Government and by increasing user fees for government services. Respondents oppose raising taxes or cutting social security payments to reduce the Federal deficit.

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March 23, 1990

Senator Patrick Leahy, Chairman
Senate Agriculture, Nutrition and
Forestry Committee
U.S. Senate
Room SR-328 A
Washington, D.C. 20510

Dear Senator Leahy:

On behalf of our client, the American Home Sewing Association (AHSA), representing over 600 manufacturers and retailers in the U.S. sewing industry, such as Singer, McCalls, and Simplicity Pattern companies, Minnesota Fabrics and Cloth-world, we would like to have the following statement of Morris Jarvis, President, Hancock Textile Company, Tupelo, Mississippi included in your permanent hearing record on the USDA's Extension Service programs.

The AHSA works closely with the USDA's Extension Service, clothing and textile specialists around the country on sewing education programs and last year worked directly with the Mississippi Extension Service on a joint project.

Sincerely,

John Chwat

STATEMENT OF

MORRIS JARVIS, PRESIDENT

HANCOCK FABRICS, INC.

BEFORE THE

SENATE AGRICULTURE, NUTRITION AND FORESTRY COMMITEE

MARCH 31, 1990

Mr. Chairman and Members of the Committee, I am Morris Jarvis, President, Hancock Fabrics, Inc., Tupelo, Mississippi, and Chairman of the Government Relations Committee of the American Home Sewing Association. I am submitting this Statement to you on behalf of the corporate and retail members of the association regarding the U.S. Department of Agriculture's Extension Service programs. I understand it will be incorporated in the permanent hearing record.

Our association is the only organization which represents the entire home sewing industry in the United States, including such areas as fabrics, fibers, patterns, notions, trimmings, sewing machine manufacturing, retailing, wholesaling and publishing.

Mr. Chairman, our industry works cooperatively with the USDA's Extension Service, and their clothing and textile specialists on sewing education programs serving hundreds of thousands of citizens around the country. These Extension Service education programs are critical to the sewing and textile industries.

While clothing and textiles represent a modest portion of the existing Extension Service education programs, clothing is a basic necessity of life, and therefore, sewing and clothing - relating programs take on an economic importance to our society that far exceeds that of other desirable but less fundamental programs. Sewing skills enable people to lower their expenses for clothing and to obtain income through utilization of their sewing skills by performing part-or full-time sewing related work. People do not need extensive facilities or equipment to make clothes.

Mr. Chairman, last year in testimony before this the House and Senate Appropriations Subcommittees on Agriculture, Rural Development and Related Agencies, our association detailed a unique private-public sector program we initiated with the cooperation of the USDA's Extension Service, entitled "Sewing As A Business". At that time we supported a sewing education program designed to assist the sewing entrepreneur in establishing a profitable home-based business. We targeted the State of Mississippi for the Pilot Project because of its low per capita income and unemployment rate. I am proud to say that the project entitled, "Mississippi Pilot Project in Textiles and Clothing Entrepreneurship" was a resounding success. During 1988 the six workshops around the state included 123 attendees. Well over 500 Mississippians applied to attend the pilot project. The response was overwhelming.

As a bottom line, Mr. Chairman, the Mississippi Extension Service Project increased the incomes of its participants. The

following list of five participants illustrates the rise in their incomes after attending and graduating from the workshop.

Irma May	Before - $500-999 After - $7,000-9999
Connie Richardson-Russell	Before - $500-999 After - $6,000-7999
Bob Gibson	Before - $1,000-2999 After - $10,000-14999
Fran Sexton	Before - $1,000-2999 After - $20,000-24,999
Hattie McKenzie	Before - Under $500 After - $5,000-6999

This type of project is not new to the Extension Service. In fact, in 1983 and 1984 nearly 1,000 Alabamians attended five county and 16 Sew For Pay area meetings. I understand that over 1,500 people in Alabama receive a monthly newsletter entitled, "Sew-For-Pay". In 1986, the Massachusetts Extension Service sponsored a highly successful "Sewing as a Business" conference. The Extension Services of Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio and South Dakota have sponsored a highly popular book entitled, "Sewing for Profit" which has sold over 55,000 copies.

Mr. Chairman, the AHSA believes that this Mississippi project revitalizes rural America in one simply way -- it assists rural families to survive in this economic environment by increasing their income. It also provides hard-sought tax revenues for state and federal governments; increasing farm-family income is a positive goal that the AHSA and the USDA wholeheartedly support.

The AHSA requests that the Pilot Project in Mississippi be continued and expanded to South Carolina and Alabama in Fiscal Year 1991, and perhaps made a permanent program capable of being expanded to other interested states on an annual basis. Mississippi, Alabama and South Carolina have indicated an interest in starting the program, but lack the resources to do so this Fiscal Year.

We have urged the Appropriations Committees to dedicate funds in the amount of $180,000 for a "Rural Business Opportunity Development Clothing and Textile Project," patterned after the 1988 Mississippi Project, in the USDA's, Extension Service "Federal Administration and Coordination" portion of the Fiscal Year 1991 Extension Service Budget. This figure is based on the experiences of running the 1988 Mississippi Project. These funds should be dedicated in equal amounts for projects in Mississippi, South Carolina and Alabama. The AHSA specifically, requests that this $180,000 be inserted as a dollar, line-item project under the Federal Administation and Coordination category.

Last year, the Senate Appropriations Committee inserted the following Report language under the "Federal Administration and Coordination," portion of the Fiscal Year 1990 ES-USDA budget (p. 38-39, Sen. Report 101-84):

> "The Committee concurs with the House in recommending continuation of the Home Sewing Project in Mississippi and expansion of this project to South Carolina and Alabama. Up to $180,000 is included for these projects."

The AHSA fully supported this Senate Report language. Unfortunately, Mr. Chairman, in trying to work with Extension officials to implement this directive, our industry is still unable to confirm that each of these states have received their $60,000 appropriations. Extension officials said there was no "line-item" appropriation and that even if the money was included in the 1989 Public Law 101-161, it might have been "absorbed" for other purposes. We are working with the Congress to see that these funds are made available to keep this Program functioning.

In short, Mr. Chairman, we believe that this particular program is important to continue in Fiscal Year 1991 and is supported by state extension officials in Mississippi, Alabama and South Carolina as well as the citizens who benefit by attending these projects. It is an extremely modest amount to invest in a project which generates federal and states revenues.

The AHSA requests that the Agriculture, Nutrition and Forestry Committee consider inserting Authorization language which would make this clothing and textile project a part of the Smith-Lever 3(d) Extension Program or one with a separate program authorization. We are also attaching to this statement materials relating to this revenue-producing project.

PILOT PROJECT IN TEXTILES AND CLOTHING ENTREPRENEURSHIP

American Home Sewing Association
Cooperative Extension Service - USDA
Mississippi Cooperative Extension Service

Cooperating

EVALUATION AND SUMMARY REPORT

JANUARY, 1989

PILOT PROJECT IN TEXTILES AND CLOTHING ENTREPRENEURSHIP

Evaluation and Summary Report

This project joined efforts of the Cooperative Extension Service (CES) with those of industry, specifically the American Home Sewing Association (AHSA), to pilot an educational program targeted to the sewing entrepreneur.

The project was piloted in the state of Mississippi. The objective was to train and assist sewing entrepreneurs in establishing profitable home-based businesses to supplement family incomes. The educational program developed to meet this objective was a five day intensive training workshop.

The sessions covered were: Business Awareness (1 day), Marketing Directions (1 day), Update (1 day), and Using New Technology (2 days).

Business Awareness included basic management skills needed to establish and maintain a viable business. Topics covered included: financial records and taxes, zoning and licensing, bank accounts and securing loans, time management, and legal aspects.

Marketing Directions centered on the strategic use of marketing skills to the survival of a business. Topics covered included: advertising and promotion, pricing, networking, target markets, and professional image.

Update concentrated on the types, sources and cost of

new equipment and products available to the sewing entrepreneur.

Using New Technology focused on the development of competitive skills.

Funds to conduct the AHSA/CES Pilot Project in Mississippi were received in July, 1987. The Oversight and Planning Committee met in Portland, Oregon to discuss the project. Members present were:

Beth Duncan, Extension Clothing And Textiles Specialist and Project Leader;

Vicki Hastings, Educational and Marketing Director, American Home Sewing Association;

Velda Rankin, National Program Leader, Textiles and Clothing, ES-USDA; and

Pati Palmer, Author/Designer, representing the American Home Sewing Association.

In October, 1987, Alice Shinn, B.S. in Home Economics, University of Missouri, was hired as the Extension Clothing Project Coordinator for the AHSA/CES project.

The Oversight and Planning Committee met in New York City in late October, 1987, to finalize plans for the project. Attending this meeting were: Beth Duncan, Alice Shinn, Vicki Hastings, and Pati Palmer. At this meeting it was decided the educational workshop would be titled "Sewing As A Business."

Actual development and coordination of educational materials for the workshop began November 1, 1987. Detailed

notebooks were developed. The notebooks contained written information that was presented during the workshop.

Promotion of the workshop began November 15, 1987. The county Extension Home Economists advertised the "Sewing As A Business" workshop through news articles, radio programs, newsletters, home sewing retailers, and personal contacts. The deadline for participants to submit applications was January 15, 1988.

The response to the workshop was overwhelming. Over 400 applications were received from 60 (out of 82) counties in Mississippi. Twenty participants were selected for each of the four workshop locations initially proposed (for a total of 80 participants).

At this time it was decided to add two additional workshops to the project because of the large demand. So an additional 40 participants were selected.

Six workshops were conducted at five different locations in the state as follows:

February 8-12, 1988 - Gulfport, Mississippi

March 7-11, 1988 - Jackson, Mississippi

April 25-29, 1988 - Greeneville, Mississippi

May 9-13, 1988 - Tupelo, Mississippi

July 25-29, 1988 - Starkville, Mississippi

August 15-19, 1988 - Jackson, Mississippi

All participants completed three evaluation instruments: one at the beginning of the workshop, the second at the end of the workshop, and a third six month follow-up. The

instruments were designed to measure demographic data, workshop content, changes in behavior related to the operation of the business, knowledge gained, changes in family income, and more. (Refer to graph on page 8 for income changes.)

Support and cooperation from the home sewing industry in terms of equipment and products was excellent. The following is a list of companies that contributed machines, fabrics, publications, and/or products to the project:

*B. Black & Sons
*Butterick, Inc.
*Charter Fabric
*Coats & Clark
*Crown Textile Co./Armo Division
*Dan River
*Dritz Corporation
*Elna, Corporation
*EZ International
*Fabricnews
*Fiskars
*Freudenberg Nonwovens
*Forstmann and Company
*Gingher, Inc.
*Guilford Mills, Inc.
*Hancock Textiles
*Hi-Fashion Fabrics
*Monarch Counter Fabrics
*N. Erlanger Blumgart
*Nancy's Notions
*PJS Publications
*Page Fabrics
*Palmer/Pletsch
*Pendleton Woolen Mills
*Pentapco, Inc.
*Peter Pan Fabrics
*Pfaff American Sales Corp.
*Sew Easy Lingerie
*Sew It Seams
*Sharon Lewis
*Simplicity Patterns
*Singer Sewing Co.
*Speed Stitch, Inc.
*Springs Industries, Inc.

*Homesewing Trade News	*Stacy Industries
*Iemda, Inc.	*Sussman
*Juki Industries of America	*Swiss-Bernina, Inc.
*June Tailor, Inc.	*Swiss-Metrosene
*Logantex, Inc.	*The Taunton Press
*Majestic Mills, Inc.	*The New Home Sewing Machine Company
*Manes Organization	*Tootal American
*Marcus Brothers	*Update Newsletters
*Marks International	*Viking/White Sewing Machine Co.
*Mary Carter Exotic Silks	*Wamsutta OTC
*McCall Patterns	*Westwood Retail Fabrics

In September, 1989, a two day Statewide Conference was held for graduates of the workshops. The Statewide Conference was held in Jackson, Mississippi, which is centrally located in the state. Thirty-seven percent of the graduates attended the conference, with representation from all six workshops. Topics chosen for the educational sessions at the conference were the most frequently requested on the workshop evaluations.

On day one sessions included: The Home-Based Sewing Profession, Time Management, Specialty Fabrics, and Teaching Techniques. On day two sessions included: Networking, Client Analysis, and Alterations.

Before the conference was adjourned, a committee was selected to begin plans for the formation of a statewide guild for sewing professionals. Interest was expressed for

continuing statewide update meetings on an annual basis.

In January, 1989, information about the AHSA/CES project was disseminated to the Cooperative Extension Services in other states. Each state was mailed a video tape summarizing the project and a workshop notebook.

The success of the AHSA/CES project in Mississippi has been significant. By combining the resources from the sewing industry with the educational mission of the Extension Service, Mississippi entreprenours have benefitted. According to the men and women who graduated from the program, they acquired the specialized tools necessary to make their businesses successful and profitable, which resulted in increased family incomes. The AHSA/CES project has effectively contributed to the economic development of Mississippi.

The Mississippi Cooperative Extension Service has plans to continue the program through 1990. In the summer, 1989, a "Sewing As A Business" workshop will be conducted in an effort to reach farm related participants. Twenty participants will be selected to attend. In the spring of 1990, two additional workshops will be conducted for 40 additional participants. Selection of participants will be based on need to supplement family income in financially distressed rural areas.

Additional funding and support would enable the continuation of this project. Additional home-based entrepreneurs would be trained, additional new businesses

would be established and existing businesses improved, resulting in increased family incomes. Continued support would further impact the economic development of Mississippi.

PREPARED STATEMENT OF VERNON NOLAN, DOUGLAS, GA

Febraury 20, 1990.

To: U.S. Senate, Subcommittee on Peanuts and Tobacco, Senate Ag Committee.

From: Vernon Nolan, 38 yr. old full-time farmer in three counties of Georgia, 1207 Lake Shore Drive, Douglas, Georgia 31533, Phone 912-384-3348.

Re: Testimony on Peanuts for subcommittee.

As a young farmer trying my best to survive in an ever changing agriculture, I seek your action on changing a segment of the federally regulated peanut program. This involves the assignment of quota farm poundage to farmers that are not involved in agriculture or has no plans to be involved in farming. At present, landowners rent acreage for us to produce additional peanuts. As a new quota is assigned, they are granted to the landowner, not the grower that has made the investment and earned the quota poundage. We believe this is unfair and only you can change it!

PROPOSAL

To allow any peanut farm poundage quota increase to be assigned to the active producer or shared on an equitable input basis between the renter/tenant and quota/landowner.

Upon the assignment by USDA of the new poundage quota, the producer would have 30 days to either transfer the new quota poundage to his land or sell it under the present guidelines (within county). By April 1, all peanut poundage must be assigned to a farm, meeting the requirement that peanuts be assigned to the land.

Look at this example of a farmer in Coffee County, Georgia that has farmed additional peanuts for 5 years, yet today does not have a quota in his name.

Farmer	Profession	Before	New quota assigned
Farm 1	Retired judge	0	94,554 pounds.
Farm 2	Housing contractor realtor	0	55,312 pounds (sold, planted pines CRP).
Farm 3	Bankrupt grain elev. owner	0	39,780 pounds (transfer, planted pines CRP).
Farm 4	Insurance agent	0	16,691 pounds.
Farm 5	Federal land bank	0	65,000 pounds (sold pnts/farm to new owner).
Farm 6	Retired farmer	0	10,551 pounds.
Farm 7	Supt. pulp mill	0	???? pounds (8 percent in 1990).

This farmer, taking all the risks, growing additional peanuts for loan of $149.75 per ton or $300 per ton contract, has earned near 300,000 pounds yet, today has no quota pounds in his name. It is unfair.

The biggest injustice is to young farmers. We're not opposing the peanut program—we've seen it work. We're trying to earn our way into the system, but we're not even considered. Average age of today's farmer is over 57 years old and we must provide at least a chance for a young farmer. We can't afford to run young farmers away and feed this country.

Please make this recommendation of the 1990 Peanut Section of the farm bill. Thank you.

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